June 7, 2016

City of Bellflower - Request for Proposals submittal
Attn: Mayra Ochiqui, City Clerk
16600 Civic Center Drive
Bellflower, CA 90706

Re: Request for Proposals for the Purchase of the City of Bellflower Municipal Water System

Dear Ms. Ochiqui,

Thank you for the opportunity to submit a proposal to purchase the Bellflower municipal water system assets.

As you may know, California Water Service (Cal Water) provides water utility services to approximately 480,000 service connections in the State of California, including over 126,000 connections in the greater Los Angeles area. Our East Los Angeles district serves roughly 27,000 connections in the Cities of Montebello, Commerce, Monterey Park and Vernon. In fact, Cal Water is the largest subsidiary of California Water Service Group (Group), which is publically traded on the New York Stock Exchange under the symbol “CWT” and provides various utility services to over 2 million people in California, Hawaii, New Mexico and Washington.

We believe Cal Water is the best choice to provide water utility services to the City of Bellflower’s customers. As detailed in our proposal Cal Water is:

- the largest California private water utility with a dedicated local team in East Los Angeles including operation and maintenance personnel, and customer service representatives; a large regional presence in Los Angeles County; top-notch engineering, water quality, information technology, communications, emergency response and other support teams located within California;
- well equipped and prepared to respond to service interruptions and emergencies and provide excellent customer service 24 hours per day, seven days per week;
- continuously improving customer service and committed to achieving high levels of customer satisfaction as borne out by customer response data, while providing a safe, reliable supply of water at affordable rates; and
- a good corporate citizen and active in the communities we serve.

calwater.com
Our East Los Angeles district’s proximity will allow Cal Water to provide water utility services to Bellflower customers utilizing our existing staff, who provide excellent customer service to our existing customer base. In fact, we were recently selected by J.D. Powers and Associates as the water utility with the highest customer service satisfaction level in the western region of the United States.

Cal Water proposes a purchase price of $3,000,000 to acquire the City of Bellflower’s municipal water system, which includes the delivery system pipelines, water appurtenances, meters, 700 acre feet of groundwater supply allocation, and the high capacity groundwater well as described in Exhibit A of the City’s RFP. Furthermore, Cal Water’s proposal agrees to a rate freeze for the City of Bellflower’s municipal water customers at their current tariff rates for five (5) years following the implementation date.

Cal Water makes the following representation per Section 1.6.3 of the RFP: The information contained in this Proposal or any part thereof, including its exhibits, schedules, and other documents and instruments delivered or to be delivered to the City, are true, accurate, and complete to the Purchaser’s knowledge. This proposal includes all information necessary to ensure that the statements therein do not violate in whole or in part mislead the City as to any material facts.

In response to the Section 4 of the RFP, we submit the following information:

(a) Identity of Purchaser: California Water Service, 1720 North First Street, San Jose, CA 95112, Tel (408) 367-8200, Executive with Contracting Authority: Paul G. Townsley, Vice President Regulatory Matters & Corporate Development (ptownsley@calwater.com), Tel (408) 367-8200, Fax (408) 367-8430.

(b) The accompanying proposal is a firm offer for 12 months from the Submission Date.

By way of background, California Water Service Company is a wholly owned subsidiary of California Water Service Group (NYSE:CWT). Group is the third largest publicly-traded investor-owned water utility in the United States, and provides high-quality utility services to approximately two million people in more than 100 communities through six subsidiaries: California Water Service (Cal Water), Hawaii Water Service (Hawaii Water), New Mexico Water Service (New Mexico Water), Washington Water Service (Washington Water), CWS Utility Services (CWSUS), and HWS Utility Services (HWSUS). Cal Water, Hawaii Water, New Mexico Water, and Washington Water
provide regulated water and wastewater utility services, while CWSUS and HWSUS conduct the Group’s non-regulated business, which includes providing billing, water quality testing, and water and wastewater system operations and management services to cities and other companies.

The program manager for this proposal is Daniel Armendariz, Jr., our East Los Angeles District Manager and the corporate contact is Paul Townsley, in our San Jose headquarters.

Cal Water has been in the business of providing regulated utility services since 1926 (90 years of experience). With this long history of utility operations and unique understanding of the LA groundwater basin, we feel well situated to “hit the ground running” if we are selected as the Purchaser of the City’s water system assets.

Cal Water contemplates that the Bellflower municipal water system will be managed and operated using our existing staff based out of our East Los Angeles district office, which is located at 2000 S. Tubeway Avenue, Commerce, CA 90040. Our 49 East Los Angeles district employees will begin providing excellent customer service on day one following the contemplated acquisition. With our extensive knowledge of the LA groundwater basin, the transition to Cal Water should be seamless for City of Bellflower water customers.

Once Bellflower customers are added to the Cal Water family, we have an additional 121 employees based in Torrance and Thousand Oaks, who could provide additional support as needed. Additionally, our headquarters in San Jose, California houses over 250 employees that can provide highly skilled support services to ensure efficient operations. Finally, all of Cal Water’s 1,100+ employees are able to assist the City of Bellflower when and if necessary. If Cal Water is the selected Purchaser, we attest that it is our intent to comply with all provisions of the California Public Utilities Code and the legal requirements of the State of California Department of Water Resources, who govern the Technical, Operational and Financial Management of the Water System.

Explanation of CPUC Process – As you are no doubt aware, Cal Water is the largest and most experienced water utility regulated by the California Public Utilities Commission (CPUC or Commission). Cal Water has an excellent reputation at the Commission and extensive experience working with CPUC staff, including obtaining approvals for water system acquisitions along with making routine filings for rate changes or compliance filings. While the filing for CPUC approval of this acquisition will be an important filing, it is well within Cal Water’s normal scope of experience. Based upon its historical
experience and the circumstances here, Cal Water does not anticipate that the CPUC would deny the transaction or alter the price.

Cal Water will begin drafting the Application to seek approval from the Commission soon after the City of Bellflower identifies Cal Water as the selected purchaser of the system. Upon voter approval (in November 2016 or March 2017) of the sale to Cal Water, the company will file the Application with the CPUC which it anticipates can be accomplished within 30 days of the public vote. The Application will include the Agreement for Purchase and Sale, testimony from Cal Water detailing the reasons for the acquisition and showing the benefits of the acquisition to ratepayers, financial and rate data, and supporting information on the potential synergies related to the acquisition.

Cal Water anticipates that the Office of Ratepayer Advocates (ORA) will become a party to the case and it will present its own analysis and conclusions to the CPUC judge assigned to the matter. Historically, ORA is mostly concerned with the rates in the acquired system and any resulting rate impact on Cal Water’s existing customers. Cal Water believes that it can fully address any concerns of ORA, including ratemaking impacts associated with the purchase price. The Commission will hold at least one Public Participation Hearing to solicit ratepayer input and may schedule an evidentiary hearing to provide the parties to the case an opportunity to make their arguments before the judge assigned to the matter.

Once the judge writes a Proposed Decision, it should be voted on by the five sitting Commissioners shortly thereafter at a Commission public meeting.

Transition Timeline – Our goal would be to obtain CPUC approval and close escrow as soon as possible; however we anticipate that the review and approval process by the CPUC could take about nine (9) to twelve (12) months.

Accompanying our proposal is a company check in the amount of $300,000.00, which represents a 10% security bond per RFP Section 6.3. If Cal Water is not selected as the apparent successful purchaser per RFP Section 2.6, we respectfully request that our 10% security bond check be returned un-cashed within 14 days.
We look forward to the City’s decision and encourage you to contact us if you require additional information or further clarification.

Sincerely,

[Signature]

Paul G. Townsley, Vice President
California Water Service Company
(Person authorized to bind the Corporation)
Response to the Request for Proposals
For the Purchase of the City of Bellflower
Municipal Water System

By:
California Water Service
2000 S. Tubeway Avenue
Commerce, CA 90040

Points of Contact:

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Proposal to City of Bellflower
Response to the Request for Proposals
For the Purchase of the City of Bellflower Municipal Water System and Related Assets.

California Water Service (Cal Water) is pleased to submit an offer to purchase all of the City of Bellflower’s Municipal Water System and Related Assets in response to the City’s RFP. Our offer is subject to further due diligence review, the negotiation and execution of an acceptable Purchase and Sale Agreement and the granting of all necessary regulatory approvals needed, including, the State of California Department of Water Resources (CDWR) and the California Public Utilities Commission (CPUC).

Cal Water offers to purchase all of the City of Bellflower municipal water system facilities, including the delivery system pipelines, water appurtenances, meters, 700 acre feet of its groundwater supply allocation, high capacity groundwater well, and any lands and easements appurtenant thereto. Cal Water proposes a fixed fee upfront cash payment of $3,000,000.00 to acquire the City’s municipal water system and related assets.

Further, Cal Water’s proposal includes a rate freeze for the City of Bellflower’s municipal water customers at their current tariff rates for five (5) years from the implementation date. Cal Water anticipates that the CPUC will eventually consolidate rates of the Bellflower municipal water customers with rates of its East Los Angeles service area as described elsewhere in this Response to the RFP.

If selected as the successful candidate, Cal Water attests that it will seek CPUC approval of the transaction and will comply with all provisions of the California Public Utilities Code and the legal requirements of the State of California Department of Water Resources governing the technical, operational, and financial management of the water system.

Cal Water’s Organization and Utility Experience

California Water Service (Cal Water) is a U.S. based water utility headquartered in San Jose, California focused exclusively on being the highest quality water service provider. As our vision states: “We are dedicated to being the leader in providing communities and customers with traditional and innovative utility services.” Because our headquarters and a large percentage of our resources are in California, including significant operations in the Los Angeles area, we are able to devote our attention and resources to serving the City’s and its customers’ water needs without the distractions of unrelated businesses or foreign countries. In 1926, Cal Water was incorporated and began providing high-quality water utility services to multiple California cities. Today, 90 years later, we are the largest American-based, investor-owned water utility west of the Mississippi, serving more than 1.5 million people in California through 478,000 connections in 24 separate districts ranging from Chico in the North to the Palos Verdes Peninsula in the

1 Subject to CPUC approval, the proposed rate freeze would exclude adjustments for purchased water, pump taxes, and purchased power, which are outside Cal Water’s control and subject to the CPUC’s modified cost balancing account (MCBA). The MCBA mechanism provides for rate adjustments to reflect price changes via a surcharge or surcredit.
South. In the metro Los Angeles area, we provide service to the communities of Montebello, Commerce, Monterey Park, Vernon, Hermosa Beach, Redondo Beach, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, Carson, and portions of Compton, Hawthorne, Harbor City, Long Beach, Torrance, and Los Angeles County.

Cal Water is the largest subsidiary of California Water Service Group (Group), which is publically traded on the New York Stock Exchange under the symbol “CWT.” Group’s other five subsidiaries Hawaii Water Service, Washington Water Service, New Mexico Water Service, HWS Utility Services, and CWS Utility Services provide regulated and non-regulated water and wastewater utility services in California, Washington, New Mexico, and Hawaii. Every Group subsidiary is committed to being the leading provider of water and wastewater services.

In 1977, Cal Water began providing a variety of water utility services to municipalities statewide. Cal Water has long-term lease agreements with the City of Commerce as well as the City of Hawthorne, and has operated the City of Bakersfield’s system for almost four decades under an O&M agreement. Additionally, we have operated the recycled water system for the West Basin Municipal Water District.

The endorsements attached as Exhibit A from our partners in the Cities of Bakersfield, Commerce, Montebello, and Visalia, as well as the West and Central Basin Municipal Water Districts are an indication of our proven past successes in serving different communities.

Cal Water believes that our employees are our best advocates. This is reflected in one of our corporate goals and also demonstrated by our multi-year awarding of “Best Places to Work” and by our outstanding long-term relationship with our employee unions.

**Cal Water’s Approach to Accomplishing the Water System Acquisition**

Since the City of Bellflower system is roughly 20 minutes drive time from Cal Water’s East Los Angeles district office, which is located at 2000 S. Tubeway Avenue in Commerce, operations staff and customer service staff from that district will serve Bellflower municipal water customers. Cal Water believes that the change in ownership from City of Bellflower to Cal Water would be seamless and accomplished rather quickly since we have experience with these types of system mergers.

Upon City Council, City of Bellflower voter, and CPUC approval, Cal Water will be in a position to close the acquisition and immediately take over responsibility for operations, management, and capital investment. During the period between selection of Cal Water as the purchaser and the acquisition closing, Cal Water will work closely with the City to complete its due diligence, finalize the necessary contract documents, and complete other work necessary to effectuate the ownership transfer.

Once the purchase and sale agreement is executed, we would jointly develop and file an application with the CPUC for transfer of ownership. This application would contain necessary documents, testimony, and work papers to satisfy the CPUC that the acquisition is appropriate and in the interests of both our customer bases. In the application, Cal Water will also request to freeze rates for City of Bellflower municipal water customers at their current tariff rates for
five (5) years from the implementation date. We expect that the CPUC will consider consolidating the rates for the City of Bellflower municipal service areas with the rates for Cal Water’s East Los Angeles service area at the end of the five (5) year rate freeze period.

Once the acquisition is approved, City of Bellflower municipal water customers would receive bills from Cal Water and have access to Cal Water’s East Los Angeles district customer service office located at 2000 S. Tubeway Avenue in Commerce, as well as telephone support, internet bill-pay and support, and the use of various third-party pay stations established in the City of Bellflower. Cal Water also has an online customer portal that enables customers to view and pay their bills, review their usage history, start and stop service, and contact us. A large percentage of our customer base use this convenient way of managing their utility service. In addition, Cal Water recently rolled out new bill formats based on feedback from customer focus groups. This new design is full-color, easier to understand, and much more informative than many other utility bills.

At the time of Cal Water’s next triennial rate case (filed in 2018 with new rates effective in January 2020), Cal Water would propose that Bellflower municipal customers switch from bi-monthly billing to monthly billing, which can help families’ monthly budgets and their water consumption. In addition, upon approval of rate consolidation by the CPUC eligible City of Bellflower customers will be able to take advantage of Cal Water’s Low-Income Rate Assistance (LIRA) program, which provides a 50% discount on the monthly service charge. This program helps many of Cal Water’s less fortunate customers to stretch their budget dollars further by providing a water bill discount.

Additionally, Cal Water will be able to fully roll out its industry-leading water conservation program to municipal water customers in the City of Bellflower. This program contains a large number of customer benefits and incentives, including rebates for high-efficiency clothes washers and toilets, residential and commercial water-use evaluations, high-efficiency sprinkler replacements, turf replacement incentives, water usage reports, conservation kits, and extensive education materials.

Cal Water’s Transition Work Plan

Cal Water has the first hand knowledge, technical expertise, and experience to transition the Bellflower municipal water system with a “Customer First Approach”. We will initiate a customer notification campaign designed to keep customers apprised of our progress as we proceed together through the transition. Our skilled water system professionals will perform a top to bottom detailed analysis of the water system to identify any deferred maintenance and capital improvements to ensure continued system reliability.

Formal notices of the transition will be sent to regulating, governing and other key agencies with direct oversight over the Bellflower system such as; the State of California Water Resources Control Board, the California Public Utilities Commission, the Los Angeles County Board of

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2 Subject to CPUC approval, the proposed rate freeze would exclude adjustments for purchased water, pump taxes, and purchased power, which are outside Cal Water’s control and subject to the CPUC’s modified cost balancing account (MCBA). The MCBA mechanism provides for rate adjustments to reflect price changes via a surcharge or surcredit.
Supervisors, the Metropolitan Water District, the Central Basin Municipal Water District, and the Water Replenishment District of Southern California, to name a few.

Our host of technical professionals will coordinate with the City and current operator to transition data for various programs such as Geospacial Information System (GIS), Customer Care and Billing (CC&B), Computerized Maintenance Management System (CMMS), and Cross Connection Control Program (CCCP).

Geospacial Information System (GIS)

The Cal Water Engineering and Information Technology team will coordinate with the City and current operator to import water system data into our GIS system. All hard copy drawings will be entered into GIS after review and field verification. Updated Atlas and Distribution maps will be sent to the mobile devices used by our team.

Customer Care & Billing (CC&B)

Our Customer Service and Information Technology team will coordinate with the City and the current operator to smoothly transition the customer accounts from the current system to our brand new CC&B software platform. This critical data transfer is key to our “Customer First Approach” transition plan. We will request past meter reads, current/prior customer arrangements, service agreements, impending new service arrangements and all other data points that touch the customer, so we can import the latest data for all customers to augment the information already in our system.

Computerized Maintenance Management System (CMMS)

Cal Water stores and tracks all major water system assets in our “Maximo” CMMS platform. During the transition period, our Engineering and Information Technology departments will work with the current operator to obtain a listing of all major equipment components that will need to be imported into our CMMS system. Once data is imported, our CMMS program will ensure that preventative and predictive maintenance will be performed on a timely manner going forward to pave the way for future capital improvements that will strengthen overall system operations.

Cross-Connection Control Program (CCCP)

Finally, we will meet with the current operator and the City to request all known cross-connection control devices installed in the water system. The testing schedule for these devices and any known hazards associated with the connections will be imported into our database. Special notices will be provided to device owners to notify them of the transition and provide instructions on how and when to test their equipment in the future. A closely managed CCCP key to protecting the water distribution system and the customers it serves.

As noted in the RFP, sections of the City’s water system are located in and serve customers adjacent to established water service areas of other water providers in the City. As part of the CPUC filing process, Cal Water will submit a revised map for approval as part of the application.
process that will define the approved service area boundaries. If necessary, the company will also work with the City of Bellflower, LAFCo or other agencies to resolve any encroachments or other service area conflicts to the satisfaction of the City of Bellflower.

*Cal Water's Philosophy and Corporate Giving*

Being a leading corporate citizen is one of Cal Water’s six strategic corporate goals. To this end, Cal Water is active in each of the communities we serve. We contribute both time and resources to numerous local service organizations.

In 2015, California Water Service Group donated more than $600,000 to charitable organizations in its California, Washington, Hawaii, and New Mexico service areas. The 2015 donations exceeded the prior year’s corporate giving by more than $50,000, making the year one of the most charitable in company history. These contributions come from stockholder funds and are part of the Group’s corporate philanthropic program. The financial gifts do not come from customer rates.

Among its donations, the Group provided $60,000 in college scholarships to 22 students in the areas it serves. It also supported a variety of local non-profits that enhance quality of life in its communities, such as the Bethlehem Center in Visalia, the Mission at Kern County in Bakersfield, and the Lucerne Alpine Senior Center. In our East Los Angeles district, our 2015 contributions included $600 to the City of Montebello Parks & Recreation department, $1,000 to “Clean up Commerce,” a joint venture with the City of Commerce, the Citadel Outlets, and multiple City vendors trying to enhance the community, $500 to the East Los Angeles Chamber of Commerce to fund youth programs, and $4,000 to Help the Children Food Bank.

Last year, Cal Water also contributed $10,000 to help the Food Bank of Monterey County rebuild after a devastating fire and $11,000, including matching employee contributions, to the Red Cross Fire Relief Fund, after wildfires destroyed and threatened thousands of homes and businesses in northern California.

Cal Water contributed $198,000 to local charitable organizations throughout the state over Thanksgiving as part of the company’s annual Operation Gobble program to help provide holiday meals and assistance to residents in need.

Doing the right thing and giving back to the areas we serve is a cornerstone of California Water Service Group’s values. We are committed to investing in our communities by assisting young people finance an education and obtain their dreams for the future; helping families and charities rebuild after a disaster; and alleviating some of the financial burden so non-profits can continue to provide life-changing services for those in need, year after year.

In 2016, the company plans to continue its outreach efforts and develop additional programs to benefit customers in the areas it serves.
Cal Water Works on Rate Affordability

Cal Water recognizes that the cost of water is increasing. Ever more stringent standards for water quality mean more testing is required, more training is necessary, and when contaminants are detected costly treatment systems need to be installed, operated and maintained. In addition, across California and the rest of the country, facilities that were installed many decades ago are beginning to need to be replaced in order to maintain adequate levels of reliability and efficiency. However, the cost to replace these facilities is now much higher than when they were originally installed because the cost of labor and materials have increased, and new requirements for permitting and installation in existing roadways mean higher costs too. Yet, people are not using more water to offset these higher costs. In fact, in most cases people are using less water, so the cost of water is increasing everywhere.

Cal Water works hard to manage its costs and provide options for customers with affordability needs. As an example, Cal Water can seek government grants to offset costs of large construction programs. In 2015, we received a $136,000 grant to make improvements to pumping facilities in our Lucerne, California system. One month later, we received grants for more than $5 million to offset costs of meeting the new state standard for chromium-6 in our Willows district. We also received $1.3 million in grants from the Department of Water Resources Water-Energy Grant Program to enhance our Bathroom Fixture Replacement Program in our Bakersfield, East Los Angeles, and Rancho Dominguez districts. It takes effort to apply for government grants, but it is well worth it when we can secure funds that will minimize rate impacts of necessary projects.

Consolidation is another approach to affordability that is currently being considered by the California Public Utilities Commission as part of our 2015 General Rate Case. In that case, we proposed consolidating rate-making for some of our small districts with larger districts to spread costs over more customers and minimize rate increases.

To assist eligible customers who need additional help with affordability, our 2015 General Rate Case proposed enhancements to our Low-Income Rate Assistance Program (LIRA), which provides discounts to low income customers in all our service areas who meet income guidelines, and our Rate Support Fund (RSF), which provides discounts to customers in small, lower-income communities where the costs of providing clean, reliable water supplies are relatively high. These program costs are spread among the entire California customer base.
At California Water Service, we are proud to say that there is a reason we have “Service” in our name. One of our six corporate strategic objectives is to provide excellent customer service, and every employee in the company participates on Continuous Improvement teams that work on projects that improve the way we serve our customers. We seek feedback from customers on a regular basis to see how we are doing and identify opportunities for improvement.

In addition to our Continuous Improvement program, which involves every employee in improving our service and efficiency, we began work on several projects with our partner, Professor Junesok Lee and the San Jose State University School of Engineering. Over a five-year period, we will pursue seven projects to address knowledge gaps in the drinking water industry. One of these projects will enable us to better prioritize our water main replacement projects; another will develop key performance indicators for our water distribution systems; and yet another will identify optimal strategies for water well rehabilitation. We expect this collaboration between our industry professionals and the university to yield improvements in our efficiency that will enhance affordability.

Customer satisfaction is important to us, so much so that we use an internal tracking program to verify our performance and spot areas we could improve upon. We track, discuss, and seek to meet high standards in six customer service-related key performance areas: first-call satisfaction, on-time arrival in two-hour appointment windows, one-hour response to water quality inquiries, one-hour arrival for after-hours emergencies, telephone calls answered within 20 seconds, and overall customer satisfaction levels. Some of these are measured in our surveys, some are measured using our customer service computer software, some use data from our telephone system, and others are tracked via work orders. The bottom line is, we are never complacent about service. One reflection of our ability to provide excellent service is the fact that we have the fewest complaints of any large water system regulated by the California Public Utilities Commission. In fact, we were recently ranked highest in overall customer satisfaction among water utilities in the western United States, according to J.D. Power’s 2016 Water Utility Residential Customer Satisfaction Study (SM). We also achieved the highest score in the region for customer communications.

Cal Water’s Response to the Drought

Due to severe lack of rainfall, the governor of California issued an emergency proclamation in April 2015 that established very tight timeframes in order to meet ambitious water-use reduction targets. Even though we already had an industry-leading conservation program in place, including bathroom retrofits, high-efficiency toilet delivery, turf replacement, and water-use efficiency programs, this new state mandate required us to do even more. Focusing on our customers, we established an individual water budget for each customer based on prior water use patterns, set up a dedicated drought call center in our East Los Angeles Customer Center to answer questions and process water-budget appeals, and trained a small army of Conservation Coordinators to provide personal, individual assistance to all who needed it. Additionally, we hosted 25 public meetings throughout the state to discuss the plan with our customers, explain the need for the program, and provide guidance to help them meet the state mandated reduction targets. Overall, our customers achieved a cumulative 28.6% reduction in water use.
between June and December 2015 compared to 2013, surpassing the State-mandated water-use reduction of 25%.

During the first few months after implementing individual water budgets, call volumes in our dedicated drought call center and our other district offices increased dramatically, but our team did a terrific job of explaining the new state requirements, walking customers through their water budgets, and offering a range of conservation programs and tips that might help. Despite this difficult challenge, customer satisfaction levels remained high. We were able to answer 87% of customer calls within 30 seconds and produced bills that were accurate 99.25% of the time. We conducted a poll in October of 2015 and on a scale of 1 to 5 with 5 being best, we scored 4 for overall satisfaction, 4.4 for service, 4 for communications, and 3.7 for drought response. These results wouldn’t have been possible without the extraordinary efforts of our 154 customer service professionals.

The drought has forced us to innovate, so our employees have piloted a process using aerial imagery to obtain information about customer landscape types and sizes in order to develop appropriate water budgets for unique situations. Using our Geospatial Information System (GIS) software, we have begun collecting data to map neighborhoods with higher-than-average water usage to help the drought response team conduct more focused, informed customer outreach. We have even experimented with having recreational golfers carry Global Positioning Systems (GPS) and data loggers to collect data, which could help golf courses identify unnecessary landscaping. This may sound like fun, but it’s actually serious business, considering the water savings that could be achieved by helping golf courses reduce non-essential water use.

Technology is also helping customers manage their own use. We are piloting new types of water meters that provide customers with real-time water use information, which enables them to identify and repair leaks quickly rather than waiting for their monthly water bill. Because of the resources these meters require, we will conduct careful cost-benefit analyses before expanding their use, reflecting our commitment to providing the highest levels of service while maintaining affordability for customers. Cal Water would also work with the City of Bellflower to continue the implementation of the smart meter installations.

There is no question that declining water use is requiring water providers throughout the state of California to increase rates in order to cover fixed costs. That’s because most of the costs of providing clean, reliable water supplies don’t decrease when customers use less water. Although we can’t change that, we can continue to focus on increasing our efficiency and offering programs to help those who need it.

**Customer Appreciation Day in our East Los Angeles district**

On November 21, 2015, approximately 800 customers in our East Los Angeles district who stayed within their water budgets over the summer came to a customer appreciation day event at the Quiet Cannon Conference and Event Center in Montebello. Our customers were invited to engage in interactive water conservation games and activities, learn about water-efficient irrigation, take home water conservation kits and drought-tolerant plants, have lunch, and enjoy the day. This event was an opportunity for the Company to thank our customers for their exceptional response to the drought, after already using water so wisely to be given the lowest conservation target from the State. Various public officials attended the event and CPUC
Commissioner Catherine Sandoval, a native of East Los Angeles, praised residents in attendance for “leading the state” in water conservation.

**Cal Water’s Effective Response to Repair Projects**

Cal Water’s response to repair projects that disrupt traffic or service to people’s homes is largely driven by water system main leaks. These leaks are ranked using a code system that prioritizes how repair crews are dispatched to address the problem. During normal working hours, a serviceperson or leak truck foreman receives notice by phone or mobile radio indicating the severity of a leak and crews respond accordingly. Recently, we have started using state-of-the-art mobile technology to dispatch data on leaks and other work orders directly to crews in the field. We have found that this new technology allows us to provide even higher levels of customer service while increasing safety to our personnel in the field. Our crews serving the City of Bellflower would be based out of our East Los Angeles district field operations center in Commerce. If the need arises to provide additional support to our staff based in East Los Angeles, Cal Water can dispatch field personnel from our Rancho Dominguez district office in Torrance, which is located at 2632 W. 237th Street, near Crenshaw and Lomita Boulevard in Torrance.

Of course, leaks don’t always occur during normal business hours. Cal Water maintains a local call center that is staffed 24 hours per day, 365 days per year. The primary call center is located at the East Los Angeles district field operations center in Commerce. A back-up call center is located in our Rancho Dominguez district office in Torrance. These call centers provide our customers easy access to Cal Water personnel who are familiar with the service area and the emergency crews that are available for dispatch.

While no one likes to be out of water, we will let our affected customers know about their service interruptions in a number of ways. Customers affected by scheduled outages will be notified at least 24 hours in advance by one our team members. With large infrastructure upgrades, we post notices on our website and deliver notices to both residences and businesses in the affected areas. Special attention is always given to critical care facilities such as hospitals and other essential services.

Additionally, the company has in place an award-winning Customer Outreach Portal that can automatically deliver telephone calls, e-mails and/or text messages to all customers within a defined map area affected by leaks or other emergencies, 24 hours a day. This system allows Cal Water personnel to quickly define a problem area and send initial messages to customers, permitting local field personnel to get on with the business of repairing the leak rather than hanging customer notifications on doors. The Customer Outreach Portal also enables Cal Water to easily send updates to affected customers as needed.

Cal Water has a large number of water professionals to call upon in emergency situations. With over 1,100 dedicated employees company-wide, we have been able to assist nearby communities as well as other cities and utilities in past emergencies, including during the Northridge earthquake. We also have a master contract with W.A. Rasic Construction. This master contract gives the Cal Water East Los Angeles district needs priority over all other utilities in the event of an emergency.
Cal Water has proven to have the resources necessary to respond effectively to emergencies. Not only do we have access to the people and equipment, we also have a comprehensive Emergency Response Plan (ERP) that covers each operating district and our Customer Support Services (CSS) office in San Jose, CA. The ERP also includes listings of all Cal Water statewide warehouses and outside vendors for materials and supplies. All key management personnel within Cal Water have been trained in emergency response procedures, and Cal Water is both Standardized Emergency Management System (SEMS – state government) and National Incident Management System (NIMS- federal government) compliant. Full-scale Emergency Operations Center (EOC) exercises as well as table-top exercises are held regularly, which enable Cal Water to respond quickly and effectively in the case of an emergency.

**Cal Water’s recent acquisition experience**

   a) Approved by CPUC May 18, 2000 – Decision 00-05-047
   b) Dominguez Water Company, 21718 S. Alameda Street, Long Beach, CA 90810
   c) John Tootle - Telephone (310) 377-1716
   d) Cal Water acquired the Dominguez Water Company, which was a CPUC regulated “Class A” water system serving customers in portions of Carson, Compton, Harbor City, Long Beach, Torrance and other areas in Los Angeles County. The customer base is now operated out of a consolidated office space located in Torrance, CA.

2) Los Trancos County Water District 3-03 (2005)
   a) Approved by CPUC April 21, 2005 – Resolution W-4532
   b) Los Trancos County Water District; 126 Lake Road, Portola Valley, CA 94028
   c) Bill Coats - Telephone (650) 851-4934
   d) Cal Water purchased the assets of the Los Trancos County Water District and merged the customer base into an existing CPUC regulated service area in Los Altos, CA.

3) Skyline County Water District (2008)
   a) Approved by CPUC September 3, 2008 – Advice Letter 1880
   b) Skyline County Water District, 14944 Skyline Boulevard, Woodside, CA 94062
   c) District was dissolved by LAFCO.
   d) Cal Water purchased the assets of the Skyline County Water District, which was subsequently dissolved through a LAFCO process. The customer base was merged into an existing CPUC regulated service area in Woodside, CA.

   a) Approved by CPUC December 21, 2009 – Advice Letter 1907
   b) Woodside Mutual Water Co, 56 Big Tree Road, Woodside, CA 94062
   c) Darleen Barnes – Telephone (650) 851-0427
   d) Cal Water purchased the assets of the Woodside Mutual Water Company, which needed substantial capital improvements to its infrastructure and merged the customer base into an existing CPUC regulated service area in Woodside, CA.
Providing High-Quality Water

Because protecting customer health and safety has always been our top priority, we have a diligent water quality team that works around the clock to conduct more than 400,000 water quality tests in 2015 and check for the presence of 269 constituents. Their efforts, as well as our proactive approach to water system maintenance and infrastructure investment, are both critical to ensuring that we don’t experience a water quality crisis like the one unfolding in Flint, Michigan.

Our Water Quality and Engineering teams also reached a significant milestone in 2015 by achieving full compliance with the new California regulation for chromium-6. After conducting groundbreaking research to identify the most cost-effective treatment methodology, we became one of the first water providers in the United States to use full-scale strong base anion-exchange technology to meet the chromium-6 standard. In 2015, we completed nine treatment plants that will operate at a cost that is considerably less expensive than other treatment methodologies, which is critical to maintaining affordability for our customers.

As requested in the City’s RFP, attached in Appendix B is a listing of all incidents of regulatory violations and their disposition, occurring in our California operations within the last five (5) years.

Detailed Financial Statements for the last eight (8) years

Financial data for the past eight years is included for reference. Also attached is a map displaying the service areas of both Cal Water’s East Los Angeles district and the City of Bellflower’s municipal water systems. Copies of California Water Service Group’s most recent annual report will be provided upon request.
California Water Service (Cal Water) is the largest subsidiary of California Water Service Group (Group), which is traded on the New York Stock Exchange under the symbol “CWT.” Group is governed by an 11-member Board of Directors elected by the Stockholders. Cal Water is regulated by the California Public Utilities Commission and the State Water Resources Control Board’s Division of Drinking Water.
May 10, 2011

City Council
City of Hawthorne
Department of Public Works
4455 West 126th Street
Hawthorne, CA 90250

TO WHOM IT MAY CONCERN:

We have been asked to provide you with a letter of recommendation for the water utility services provided by California Water Service to the City of Bakersfield.

California Water Service Company has operated and maintained the municipal-owned domestic water system (formerly Ashe Water Co.), under contract, since 1977. The City system has grown during this time period from 3,300 service connections to the current figure of over 40,000 services. California Water Service has provided full service day-to-day operations including operation and maintenance of pumping facilities and the distribution system, meter reading, billing and collections, water quality monitoring and reporting, as well as some design and engineering of major capital water distribution facilities.

The staff and management of California Water Service have demonstrated the ability to efficiently and effectively operate the City of Bakersfield water system. They are professional and have provided the City with a quality of service we would require of our own personnel.

Sincerely,

[Signature]

Art Chianello, P. E.
Water Resources Manager

(Continued on next page)
May 10, 2011

City Council
The City of Hawthorne
4455 W. 126th Street
Hawthorne, CA 90250

Dear Hawthorne City Council Members:

I understand that the California Water Service Company will present the City of Hawthorne a proposal for the long-term lease and operation of your City's Water System and I am pleased to provide the following information:

- California Water Service Company has operated our water system since 1985. During this time, the company has never failed to provide service of the highest standard in a timely and cost-effective manner. The company operates and maintains our water system at the same level it provides to its own system in neighboring East Los Angeles area.

For a combination of value and service in providing drinking water, California Water Service Company would be hard to beat or match. Therefore, I am confident in their ability to operate any water system and would recommend them with hesitation.

Sincerely,

[Signature]
Robert Zarrilli
Director of Community Development

"Where Quality Service Is Our Tradition"
May 10, 2011

Mr. Pete Nelson
Vice President – Chief Information Officer
California Water Service Company
1720 North First
San Jose, CA 95112

Subject: California Water Services' Billing for City of Visalia Utilities

For almost two decades, California Water Service has provided utility billing services for the City of Visalia. This cooperative effort benefits the City and reduces the number of bills that Visalians receive. I can without qualification recommend Cal Water's services to any interested party.

This relationship has grown over time. At times, the City needed to change its billing practices to bill residents for different fees and services. Cal Water listened to our needs and has helped us accomplish our goals. Your staff listens and delivers. Today, we find the service as prompt, precise and cooperative as ever.

Our hope is that this relationship continues into the future. Our current agreement runs until the end of 2013. After that, I hope we can continue in our mutually beneficial arrangement.

Sincerely,

[Signature]

Eric Frost
Administrative Services Director
559.802.6297
efrost@ci.visalia.ca.us

(Continued on next page)
Central Basin Municipal Water District
17140 S. Avalon Blvd · Suite 210 · Carson, CA 90746-1218
telephone 310-217-2222 · fax 310-217-2414

From the office of Richard W. Anwar, General Manager

April 15, 1996

Mr. James L. Good, Vice President
California Water Service Company
1720 North First Street
San Jose, CA 95112

Dear Jim:

I am pleased to have this opportunity to recognize the excellent service provided by the California Water Service Company in both the West and Central Basin Municipal Water Districts, particularly in regard to the recycled water systems serving these areas.

As you know, building these systems has been the Basins’ top priority for the past few years. After all the energy and resources we invested in these systems, it was important that customers know their retrofits, connections and maintenance of the systems would be performed quickly and efficiently. You have always met our highest service expectations both within and out of Cal Water’s service area.

In addition, the Basins’ have come to rely on Cal Water as an integral part of our operations. You have loaned us your best personnel; you have undertaken numerous design projects which were completed in a timely and economical manner, and you have jumped in to provide a variety of other service with little notice when circumstances required it.

I look forward to continuing our excellent working relationship on the recycled water and other projects of mutual interest. Please feel free to use this letter as a reference for any party considering contracting for your services.

Sincerely,

[Signature]

Virginia Grebbien
General Manager

(Continued on next page)
West Basin Municipal Water District
17140 S. Avalon Blvd • Suite 210 • Carson, CA 90746-1218
telephone 310-217-2411 • fax 310-217-2414

From the office of Richard W. Atwater, General Manager

June 29, 1995

Mr. Terry Tamble, District Manager
California Water Service Company
1211 South Pacific Coast Highway
Redondo Beach, CA 90277-4996

Dear Mr. Tamble:

I want to thank you and the other employees of the California Water Service Company for the consistently excellent service you provide within the boundaries of the West Basin Municipal Water District (WBMWD).

WBMWD has a long history of working with Cal Water to ensure high-quality potable water service to the residents of Hermosa Beach and Redondo Beach. From issues concerning water supply to water quality, from infrastructure development to conservation, Cal Water has provided excellent service.

More recently, we have been impressed by the thorough and professional job you have performed in preparing the recycled water system for production. On numerous occasions, you have performed tasks well beyond what we normally expect from our contractors, including the loan of your production supervisor. Your cooperation has helped keep the West Basin Water Recycling Project on schedule.

I can unhesitatingly recommend your capabilities and services to any part considering contracting for your services.

Sincerely,

[Signature]

Richard W. Atwater
General Manager

RWA:ctm c:\wp60\rich\tamble.ltr

Virginia Grebien • Assistant General Manager
Wanda Lambert • General Counsel

(Continued on next page)
March 20, 1995

City of Hawthorne
Engineering Department
4455 West 126th Street
Hawthorne, California 90250

To Whom It May Concern:

The City of Montebello has been working directly with California Water Service Company (Cal Water) for the past three years and our relationship with them has been no less than excellent. Cal Water is a business that primarily deals with supplying and maintaining water systems for themselves and other Cities. Due to their expertise, they are heavily involved in the design and installation of the reclaimed water project and will also be maintaining the entire system. They are fully abreast of the new laws and regulations pertaining to the Clean Water Act and new regulations set by the State of California Health Department.

I would be very happy to provide you with any additional information regarding the high level of service they have provided the City of Montebello. If you have any questions or information, please feel free to contact me at (213) 887-1462.

Sincerely,

Ayyad Ghobrial
Director of Public Works/City Engineer

AG:MK:dec
# Eight-Year Financial Review Years 2011-2014

(Dollars in thousands, except common shares and other data)

## Summary of Operations

<table>
<thead>
<tr>
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<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
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<tbody>
<tr>
<td>Operating revenue</td>
<td>$597,499</td>
<td>$584,103</td>
<td>$559,966</td>
<td>$501,814</td>
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<td>Operating expenses</td>
<td>$515,652</td>
<td>$510,098</td>
<td>$486,123</td>
<td>$434,647</td>
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<td>Interest expense, other income and expenses, net</td>
<td>$25,109</td>
<td>$26,751</td>
<td>$25,015</td>
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<td>Net income</td>
<td>$56,738</td>
<td>$47,254</td>
<td>$48,828</td>
<td>$37,712</td>
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## Common Share Data

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<th>2014</th>
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<th>2012</th>
<th>2011</th>
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<tbody>
<tr>
<td>Earnings per share-diluted</td>
<td>$1.19</td>
<td>$1.02</td>
<td>$1.17</td>
<td>$0.90</td>
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<tr>
<td>Dividend declared</td>
<td>$0.650</td>
<td>$0.640</td>
<td>$0.630</td>
<td>$0.615</td>
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<tr>
<td>Dividend payout ratio</td>
<td>55%</td>
<td>63%</td>
<td>54%</td>
<td>68%</td>
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<tr>
<td>Book value</td>
<td>$13.11</td>
<td>$12.54</td>
<td>$11.30</td>
<td>$10.76</td>
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<tr>
<td>Market price at year-end</td>
<td>$24.61</td>
<td>$23.07</td>
<td>$18.35</td>
<td>$18.26</td>
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<tr>
<td>Common shares outstanding at year-end (in thousands)</td>
<td>47,806</td>
<td>47,741</td>
<td>41,908</td>
<td>41,817</td>
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<td>Return on average common stockholders’ equity</td>
<td>9.3%</td>
<td>8.8%</td>
<td>10.6%</td>
<td>8.5%</td>
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<tr>
<td>Long-term debt interest coverage</td>
<td>4.29</td>
<td>3.42</td>
<td>3.45</td>
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## Balance Sheet Data

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<th>2014</th>
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<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Net utility plant</td>
<td>$1,590,431</td>
<td>$1,515,831</td>
<td>$1,457,056</td>
<td>$1,381,119</td>
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<tr>
<td>Total assets</td>
<td>$2,187,351</td>
<td>$1,959,855</td>
<td>$1,995,924</td>
<td>$1,854,587</td>
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<tr>
<td>Long-term debt, including current portion</td>
<td>$425,840</td>
<td>$434,050</td>
<td>$481,250</td>
<td>$488,165</td>
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## Capitalization ratios:

<table>
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<tr>
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<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Common stockholders’ equity</td>
<td>59.5%</td>
<td>58.0%</td>
<td>49.6%</td>
<td>48.0%</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Long-term debt</td>
<td>40.5%</td>
<td>42.0%</td>
<td>50.4%</td>
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## Other Data

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<tr>
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<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Water production (million gallons)</td>
<td>118,282</td>
<td>126,363</td>
<td>125,892</td>
<td>120,353</td>
</tr>
<tr>
<td>Customers at year-end, including Hawthorne and Commerce</td>
<td>506,100</td>
<td>502,900</td>
<td>500,700</td>
<td>493,500</td>
</tr>
<tr>
<td>New customers added</td>
<td>3,200</td>
<td>2,200</td>
<td>1,200</td>
<td>1,600</td>
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<tr>
<td>Revenue per customer</td>
<td>$1,181</td>
<td>$1,161</td>
<td>$1,118</td>
<td>$1,005</td>
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<tr>
<td>Utility plant per customer</td>
<td>4,628</td>
<td>4,401</td>
<td>4,187</td>
<td>3,925</td>
</tr>
<tr>
<td>Employees at year-end</td>
<td>1,105</td>
<td>1,125</td>
<td>1,131</td>
<td>1,132</td>
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## Eight-Year Financial Review Years 2007-2010 (compared to 2014)

(Dollars in thousands, except common share and other data)

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<tbody>
<tr>
<td><strong>Summary of Operations</strong></td>
<td></td>
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<tr>
<td>Operating revenue</td>
<td>$597,499</td>
<td>$460,399</td>
<td>$449,372</td>
<td>$410,312</td>
<td>$367,082</td>
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<tr>
<td>Operating expenses</td>
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<td>$331,253</td>
<td>$352,843</td>
<td>$322,912</td>
</tr>
<tr>
<td>Interest expense, other income and expenses, net</td>
<td>$257,09</td>
<td>$24,157</td>
<td>$17,565</td>
<td>$17,664</td>
<td>$13,011</td>
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<tr>
<td>Net income</td>
<td>$56,738</td>
<td>$37,556</td>
<td>$40,554</td>
<td>$39,805</td>
<td>$31,159</td>
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<tr>
<td><strong>Common Share Data</strong></td>
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<tr>
<td>Earnings per share-diluted</td>
<td>$1.19</td>
<td>$0.90</td>
<td>$0.98</td>
<td>$0.95</td>
<td>$0.75</td>
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<tr>
<td>Dividend declared</td>
<td>$0.65</td>
<td>$0.595</td>
<td>$0.59</td>
<td>$0.585</td>
<td>$0.580</td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td>55%</td>
<td>66%</td>
<td>61%</td>
<td>62%</td>
<td>77%</td>
</tr>
<tr>
<td>Book value</td>
<td>$13.11</td>
<td>$10.45</td>
<td>$10.13</td>
<td>$9.72</td>
<td>$9.33</td>
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<tr>
<td>Market price at year-end</td>
<td>$24.61</td>
<td>$18.64</td>
<td>$18.41</td>
<td>$23.22</td>
<td>$18.51</td>
</tr>
<tr>
<td>Common shares outstanding at year-end (in thousands)</td>
<td>47,805</td>
<td>41,667</td>
<td>41,531</td>
<td>41,446</td>
<td>41,332</td>
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<tr>
<td>Return on average common stockholders’ equity</td>
<td>9.3%</td>
<td>9.0%</td>
<td>9.8%</td>
<td>10.2%</td>
<td>8.1%</td>
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<tr>
<td>Long-term debt interest coverage</td>
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<td>3.59</td>
<td>4.04</td>
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<td>3.70</td>
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<tr>
<td><strong>Balance Sheet Data</strong></td>
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</tr>
<tr>
<td>Net utility plant</td>
<td>$1,593,431</td>
<td>$1,294,297</td>
<td>$1,198,077</td>
<td>$1,112,357</td>
<td>$1,010,196</td>
</tr>
<tr>
<td>Total assets</td>
<td>$2,187,351</td>
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<td>$1,418,107</td>
<td>$1,184,499</td>
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<tr>
<td>Long-term debt, including current portion</td>
<td>$425,340</td>
<td>$461,561</td>
<td>$387,222</td>
<td>$290,316</td>
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<tr>
<td>Capitalization ratios:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stockholders’ equity</td>
<td>59.5%</td>
<td>47.5%</td>
<td>52.1%</td>
<td>58.1%</td>
<td>56.9%</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>40.5%</td>
<td>52.5%</td>
<td>47.9%</td>
<td>41.9%</td>
<td>42.6%</td>
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<tr>
<td><strong>Other Data</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Water production (million gallons)</td>
<td>118,282</td>
<td>121,942</td>
<td>131,558</td>
<td>137,757</td>
<td>141,238</td>
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<tr>
<td>Customers at year-end, including Hawthorne and Commerce</td>
<td>506,100</td>
<td>497,900</td>
<td>494,700</td>
<td>490,493</td>
<td>487,555</td>
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<tr>
<td>New customers added</td>
<td>3,200</td>
<td>3,200</td>
<td>4,207</td>
<td>2,938</td>
<td>3,652</td>
</tr>
<tr>
<td>Revenue per customer</td>
<td>$1,181</td>
<td>$925</td>
<td>$908</td>
<td>$837</td>
<td>$753</td>
</tr>
<tr>
<td>Utility plant per customer</td>
<td>4,628</td>
<td>3,706</td>
<td>3,455</td>
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<td>Employees at year-end</td>
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<td>Check Number</td>
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<td>525327</td>
<td>May/24/2016</td>
<td>$300,000.00</td>
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**CALIFORNIA WATER SERVICE CO.**
1720 NORTH FIRST ST.
SAN JOSE, CA 95112-4598

**BANK OF AMERICA**
San Jose, CA
70-2328/719 IL

**Pay Amount $300,000.00***
Void after 180 days.

**To The Order Of**
CITY OF BELLFLOWER
16600 CIVIC CENTER DR
BELLFLOWER, CA 90706

David Kelley
Authorized Signature