BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
CHAIRMAN
WILLIAM A. MUNDELL
COMMISSIONER
JEFF HATCH-MILLER
COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER
GARY PIERCE
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. W-02113A-07-0551

RUCO'S OPPOSITION TO THE COMPANY'S MOTION FOR APPROVAL OF INTERIM RATES

The Residential Utility Consumer Office ("RUCO") responds to the Company's Motion for Approval of Interim Rates. RUCO opposes the Company's Motion as the Company's circumstances do not warrant approval of interim rates.

INTRODUCTION

On September 8, 2007, the Company filed its Motion for Approval of Interim Rates. The Company claims that interim rates are necessary to prevent the continued erosion of the Company's financial condition. Motion at 1. Interim rates, according to the Company, would slow the Company's deteriorating condition, and allow it to earn a rate of return equal to that authorized in the Company's prior rate case (7.6% which the Commission approved in Decision No. 68176 (September 30, 2005)). Motion at 1.

As is the norm in requests by utilities for interim rates, the Company cites to the negative effects of regulatory lag and a flawed and outdated regulatory regime. The Company's arguments, however, are common and faced by all regulated utilities that operate in Arizona. The Company may be experiencing earnings erosion but by no means is it experiencing a financial "emergency". The Company fails to cite any evidence, let alone persuasive evidence, that is required to meet the legal standard in Arizona on this subject. The Company's Motion should be denied.

1) THE EMERGENCY EXCEPTION SHOULD BE NARROWLY CONSTRUED AND DOES NOT APPLY UNDER THE FACTS AND CIRCUMSTANCES OF THIS CASE

The Arizona Constitution protects consumers by generally requiring that the Commission only change a utility's rates in conjunction with making a finding of the fair value of the utility's property.[1] However, Arizona's courts recognize that, "in limited circumstances," the Commission may engage in rate making without ascertaining a utility's rate base.[2] The two limited circumstances identified by the courts are the changing of rates pursuant to a previously-established adjustor mechanism, and the establishment of interim rates when an emergency exists.[3]

The provisions of Arizona's Constitution should be liberally construed to carry out the purposes for which they were adopted.[4] Conversely, exceptions to a constitutional

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[1] A.R.S. Const. Art. XV, § 14; Simms v. Round Valley Light & Power Company, 80 Ariz. 145, 151, 294 P.2d 378, 382 (1956); see also State v. Tucson Gas, 15 Ariz. 294, 308; 138 P.781, 786 (1914); Arizona Corporation Commission v. State ex rel. Woods, 171 Ariz. 286, 295, 830 P.2d 807, 816 (1992).

[2] Residential Utility Consumer Office v. Arizona Corporation Commission, 199 Ariz. 588, 591 ¶11, 20 P.3d 1169, 1172 (App. 2001).

[3] Id.; Scates v. Arizona Corpation Commission, 118 Ariz. 531, 578 P. 2d 612 (App. 1978) ("Scates").

[4] Laos v. Arnold, 141 Arizona 45, 685 P.2d 111 (1984).

requirement should be narrowly construed.[5] Therefore, the protection to consumers afforded by the fair value requirement should be liberally construed, and exceptions for adjustor mechanisms and interim emergency rates should be narrowly construed.

The Commission's authority to establish interim rates is limited to circumstances in which 1) an emergency exists; 2) a bond is posted guaranteeing refund if interim rates are higher than final rates determined by the Commission; and 3) the Commission undertakes to determine final rates after making a finding of fair value.[6] The Attorney General has opined that an emergency exists when "sudden change brings hardship to a company, when a company is insolvent, or when the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt."[7]

The Company does not appear to be claiming that an emergency exists. The Company has not claimed that a sudden change has occurred that has resulted in financial hardship. The Company has not claimed that it is insolvent or that its financial condition is so bad that its ability to maintain service is at peril. Rather, the Company is seeking to resolve and/or mitigate its deteriorating financial condition through a very narrow exception to Arizona's constitutional fair value requirement—a requirement that this Company, in other instances, has very aggressively advocated should be strictly construed by the Commission. Arizona law does not support the conclusion that interim rate relief is appropriate under the circumstances

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[5] See Spokane & I.E.R. Co. v. U.S., 241 U.S. 344, 350, 36 S.Ct. 668, 671 (1916) (an "elementary rule" that exceptions from a general policy embodied in the law should be strictly construed).
[6] 199 Ariz. at 591, ¶12, citing Scates.
[7] 71-17 Op. Atty Gen. at 13 (1971).

of this case.

2) THE DELAY IN THE PROCEEDINGS DOES NOT WARRANT INTERIM RATES

The Company's chief complaint is the amount of time it has taken to prosecute the Company's pending rate case. The Company cites to A.R.S. §40-256 and A.A.C. R14-2-103 (B)(11)(h) in support of its argument that interim rates are appropriate. Motion at 5-6. A.R.S. § 40-256(E) and A.A.C. R14-2-103 (B)(11)(h) provides for interim rate relief in circumstances where a final decision is not issued within the specific time frames established by the Commission. For Chaparral, that time frame is 360 days from the date that the Company's filing was deemed accepted. A.A.C. R14-2-103 (B)(11)(d) The Company filed its application on September 26, 2008. The Company's rate filing was determined sufficient on October 26, 2007. On January 22, 2008, the Commission issued a procedural order suspending the time clock pursuant to A.A.C. R14-2-103 (B)(11)(g) and A.A.C. R14-2-103 (B)(11)(e)(ii). The Commission further ordered that the time clock "shall be reset to continue as soon as practicable following the Commission's final order in Docket No. W-02113A-04-0616, a pending matter in which the rates of Chaparral City Water Company, Inc. are also being considered." Procedural Order of January 22, 2008 at 8. On January 24, 2008, the Company moved for reconsideration of the Commission's January 22, 2008 order. The Commission did not grant the Company's motion and the Company did not seek further relief. The Commission issued its final Decision in Docket No. W-02113A-04-0616 on July 28, 2008. Decision No. 70441.

Despite the Company's arguments, the time that this case was suspended does not count towards the 360 day time period. Hence, A.R.S. § 40-256(E) and A.A.C. R 14-2-103 (B)(11)(h) are not applicable, and are not a basis for interim relief.

The Company complains that it cannot understand why rate cases should take so long, cost so much and involve multiple rounds of testimony, briefs and mini-trials before the Commissioners. Motion, Direct Testimony of Robert Hanford at 3. The Company is correct that it has the right to appeal. Id. at 4. But the Company cannot bury its head in the sand and claim that it was unaware that an appeal would likely have consequences which could affect the outcome of its pending case. Id. In the Procedural Order that suspended this case, the judge correctly pointed out that the core issue that was the basis for the Remand Proceeding would affect the outcome of this case. See Procedural Order of January 22, 2008 at 7. Therefore, the judge concluded that the suspension of this case until the remand proceeding was concluded would avoid the necessity of wasted and duplicative efforts of the parties and possibly keep down rate case expense. Id. at 8. It is disingenuous for the Company to claim that it is not responsible for creating " its own difficulties". Motion, Direct Testimony of Robert Hanford at 4.

It is also disingenuous of the Company to complain that a relatively straight forward proceeding should take so long. Id. at 3. Again, while the Company has the right to appeal, the Company cannot deny responsibility for and/or ignore the potential consequences of its appeal. It was the Company, not RUCO or Staff that decided to file this application while a Remand Proceeding was pending concerning the Commission's Decision in the Company's last rate case.

Accordingly, the relevant time periods have not expired and A.R.S. § 40-256 and A.A.C. R14-2-103 (B)(11)(h) are not applicable to this case yet. Approval of interim rates under the facts and circumstances of this case would not be appropriate.

3) THERE IS NO BASIS FOR INTERIM RELIEF AND THE AMOUNT OF THE COMPANY'S REQUEST IS ARBITRARY.

The Company is requesting an interim rate increase in its revenue of roughly $110,000 per month. Motion, Direct Testimony of Thomas Bourassa at 4. The Company's proposed interim increase, among other things, includes certain but not all of the rate base and operating income adjustments that it made in its direct filing. Id. at 8-9. In other words, the Company picked certain adjustments and excluded others. Moreover, since Staff and the intervenors have not filed their direct testimony in this case, it is not known what all the positions are on these selective adjustments.

For the most part, interim rate requests are arbitrary as the requests are not subject to a full analysis by the parties. There will be no analysis of whether the adjustments are proper, no used and useful determinations, and no prudency determinations. There will be no checks or regulatory safeguards considered. Stated another way, the Company is asking the Commission to take its word that its adjustments are appropriate and necessary. The Company likens its situation to the pending interim rate request in the APS case (Docket No. E-01345A-08-0172). The two cases could not be more different. While RUCO does not support APS' interim rate request, RUCO believes APS' concern is reasonable that failure to obtain interim relief could result in a downgrade of its credit to non-investment grade.

The Company has not claimed it is in jeopardy of being downgraded to non-investment grade. The Company's claim here is earnings erosion as the result of regulatory lag. Regulatory lag is a consequence of Arizona's constitutional fair value requirement that all Arizona utilities are subject to. Regulatory lag has two sides – it also works in favor of utilities. As explained above, the lengthy regulatory lag in this case is not surprising given the Company's application in this case was filed at a time the Commission was considering the Company's Remand Proceeding from its appeal of its last case.

The Company claims that interim rates will improve its ability to attract capital from its parent company. Motion, Direct Testimony of Robert Hanford at 8. There is no question that the Company's parent is in a position to infuse equity should it deem it necessary for the Company. The Company's parent, American States Water, had a recent market price of $33.80 compared to a 2008 book value of $17.75 per share. See attached Exhibit A - Value Line dated July 25, 2008. Its earnings growth is projected to improve throughout next year and it had higher adjusted earnings for 2007 compared to 2006. Id. and Exhibit B – American State's Water's Shareholder's Report. American States Water's projected return on equity for 2009 is 11% and its dividends have increased over the last 5 years. Id. Further, American States Water's Standard and Poor's credit rating was upgraded in August 2007 from "A –" with a "positive" outlook to "A" with a "stable" outlook. Id. The Company's parent is financially healthy and is a factor that the Commission should consider in its analysis.

Finally, approval of interim rates, according to the Company, would allow it to earn a rate of return equal to that authorized in the Company's prior rate case (7.6% which the Commission approved in Decision No. 68176 (September 30, 2005)). Motion at 1. The Arizona Constitution requires that the Commission approve rates which will provide the Company an opportunity to earn its authorized rate of return. The Commission should not approve rates that will **guarantee** the Company an authorized rate of return.

CONCLUSION

The Commission should deny the Company's request for interim relief.

RESPECTFULLY SUBMITTED this 23rd day of September 2008

Daniel W. Pozefsky
Chief Counsel

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AMER. STATES WATER NYSE-AWR

RECENT PRICE 33.80 | P/E RATIO 20.5 (Trailing: 22.4; Median: 20.0) | RELATIVE P/E RATIO 1.39 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 4 Lowered 2/15/08

SAFETY 3 New 2/4/00

TECHNICAL 4 Lowered 5/30/08

BETA 1.05 (1.00 = Market)

High:	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	40.3
Low:	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6	31.8

Target Price Range 2011 | 2012 | 2013

2011-13 PROJECTIONS

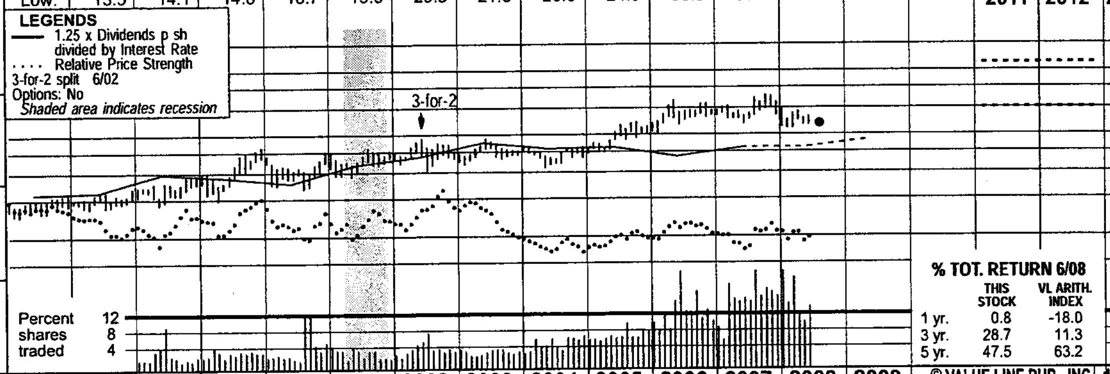
	Price	Gain	Ann'l Total Return
High	65	(+90%)	20%
Low	40	(+20%)	7%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	1	0	0	1	0	0	0	0	0
Options	2	0	4	0	0	0	0	0	1
to Sell	2	0	4	0	0	0	0	0	1

Institutional Decisions

	3Q2007	4Q2007	1Q2008
to Buy	63	63	53
to Sell	53	52	59
Hld's(000)	10424	9617	9783



% TOT. RETURN 6/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.8	-18.0
3 yr.	28.7	11.3
5 yr.	47.5	63.2

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	17.00	18.05	Revenues per sh	21.85
1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.40	3.80	"Cash Flow" per sh	4.70
1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.65	1.85	Earnings per sh A	2.50
.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.08	Div'd Decl'd per sh B■	1.20
2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	3.80	3.75	Cap'l Spending per sh	4.00
8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.75	18.05	Book Value per sh	19.20
9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.75	18.00	Common Shs Outst'g C	19.00
10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	Bold figures are	Value Line	Avg Ann'l P/E Ratio	21.0
.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.26	estimates		Relative P/E Ratio	1.40
6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%			Avg Ann'l Div'd Yield	2.4%
						148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	301.4	302	325	Revenues ($mill)	415
						14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	30.0	35.0	Net Profit ($mill)	50.0
						40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	43.0%	42.5%	Income Tax Rate	42.0%
						--	--	--	--	--	--	--	--	12.2%	8.5%	5.0%	5.0%	AFUDC % to Net Profit	Nil
						43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	47.5%	48.0%	Long-Term Debt Ratio	50.0%
						55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	52.5%	52.0%	Common Equity Ratio	50.0%
						277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	600	625	Total Capital ($mill)	730
						414.8	449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	810	845	Net Plant ($mill)	950
						7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.5%	7.5%	Return on Total Cap'l	9.0%
						9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	9.5%	11.0%	Return on Shr. Equity	13.5%
						9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	9.5%	11.0%	Return on Com Equity	13.5%
						2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	4.0%	5.5%	Retained to Com Eq	7.0%
						78%	72%	68%	65%	65%	113%	84%	67%	67%	58%	59%	56%	All Div'ds to Net Prof	46%

CAPITAL STRUCTURE as of 3/31/08
Total Debt $315.4 mill. Due in 5 Yrs $41.1 mill.
LT Debt $267.2 mill. LT Interest $22.5 mill.
(LT interest earned: 3.0x: total interest coverage: 2.8x) (47% of Cap'l)

Leases, Uncapitalized: None
Pension Assets-12/07 $70.9 mill.
Oblig. $83.4 mill.
Pfd Stock None.

Common Stock 17,245,224 shs.
MARKET CAP: $575 million (Small Cap)

CURRENT POSITION ($MILL.)	2006	2007	3/31/08
Cash Assets	3.2	1.7	.8
Receivables	14.8	16.1	14.5
Inventory (Avg Cst)	1.6	1.6	1.6
Other	44.8	43.7	42.9
Current Assets	64.4	63.1	59.8
Accts Payable	24.0	29.1	27.8
Debt Due	32.6	37.8	48.6
Other	29.3	27.4	26.1
Current Liab.	85.9	94.3	102.5
Fix. Chg. Cov.	268%	314%	300%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	3.5%	4.0%	6.0%
"Cash Flow"	5.0%	4.0%	8.0%
Earnings	3.0%	1.5%	10.0%
Dividends	1.0%	1.5%	5.0%
Book Value	4.5%	4.5%	3.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2005	49.8	60.5	68.1	57.8	236.2
2006	64.3	63.0	75.0	66.3	268.6
2007	72.3	79.3	75.8	74.0	301.4
2008	68.9	79.1	76.0	78.0	302
2009	74.0	84.0	85.0	82.0	325

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2005	.22	.34	.47	.29	1.32
2006	.35	.36	.32	.30	1.33
2007	.40	.42	.44	.35	1.62
2008	.30	.43	.47	.45	1.65
2009	.35	.50	.55	.45	1.85

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 572 employees. Officers & directors own 4.4% of common stock (4/08 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Inc: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Internet: www.aswater.com.

American States Water got off to an inauspicious start. The company posted earnings of $0.30 a share in the first quarter, 25% off last year's figure and $0.08 below our estimate. Sales decreased 4%, to $68.9 million, due mainly to a reduction in fees from military bases. Water consumption would have declined even further if not for continued improvements in the regulatory process, namely the recent rate hike, effective January 1st, implemented by the California Public Utilities Commission (CPUC).

The outlook for the remainder of the year has dried up, too. Extremely arid weather (the driest on record in roughly 70 years) in California has prompted Governor Schwarzenegger to declare a drought and urge citizens to be more conservative with water usage. This is obviously not a favorable development for American, and we have therefore reduced our share-net estimate by $0.15, to $1.65, and our revenues figure by $10 million, to reflect minimal revenue growth.

We expect that earnings growth ought to improve next year, though. Weather conditions ought to improve, replenishing reserves and sparking higher usage. Plus, the CPUC will likely continue handing down favorable general rate case decisions, a trend that began when the Governor took the reins. In all, we look for double-digit earnings growth in 2009.

Nevertheless, these shares do not whet our appetite. They've tumbled roughly 10% since our last review in April, and are ranked 4 (Below Average) for Timeliness. Growth will probably remain under wraps for the coming six to 12 months due to concerns regarding inventory levels and escalating operating costs. Longer term, we are concerned about the effects of growing infrastructure needs and the company's ability to fund such endeavors. American has a feeble cash position and will have to look to outside financiers to fund future capital expenditures. Not only will such activity result in higher interest costs and share count, thus diluting shareholder gains, but it will also limit the company's ability to make acquisitions and expand its customer base. Meanwhile, the issue does not stand out as an income producer versus other utilities.

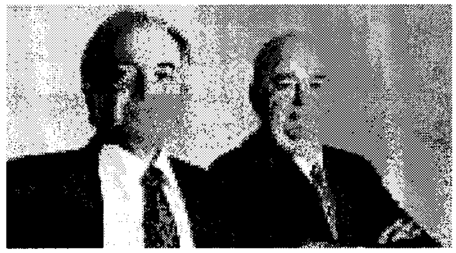
Andre J. Costanza *July 25, 2008*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Next earnings report due early August. May not add due to rounding.

(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	85
Earnings Predictability	60

TO OUR SHAREHOLDERS



2007 was another successful year for American States Water Company (AWR) as the strategies we employed in the past, and continue to employ today, are paying off.

We manage the Company with a long-term view and believe many of the key objectives achieved in 2007, listed immediately below, position the Company for a bright future.

- Higher reported and adjusted earnings for 2007 as compared to 2006 (incorporated within this Annual Report is the SEC Form 10-K)
- Improved credit ratings at both AWR and Golden State Water Company (GSWC), as Standard & Poor's revised the ratings during August 2007 for both companies from "A-" with a "positive" outlook to "A" with a "stable" outlook
- Increased the quarterly common dividend from $0.235 per share to $0.25 per share in October 2007, a 6.4% increase, the largest increase in the AWR quarterly common dividend in the last ten years; the Company has increased dividends on an aggregate annual basis for more than 53 consecutive years, while maintaining one of the lowest payout ratios in the water industry
- A favorable decision by the California Public Utilities Commission (CPUC) on the Region II/General Office rate case at the GSWC subsidiary
- A favorable CPUC decision on GSWC's Region I rate case
- A California Court of Appeal Order affirmed dismissal of court cases alleging that GSWC and other water utilities delivered unsafe water to their customers in the San Gabriel and Pomona valleys (for a detailed description of this matter, please see page 118 of the attached SEC Form 10-K)
- Increased operating income at non-regulated subsidiary American States Utility Services, Inc. (ASUS) in 2007 primarily due to successful management by ASUS of a $20.6 million wastewater expansion project at Fort Bliss, Texas
- Notified during the fall 2007 that ASUS won bids to provide water and wastewater services to Fort Jackson, South Carolina and Fort Bragg, North Carolina

Despite such key achievements, we were very disappointed by the performance of the stock market generally and the Company's common stock price toward the end of the year, as it declined from $38.62 at year-end 2006 to $37.68 at year-end 2007. Due to a continued general weakening in the stock market, AWR's stock price declined further, during the first two months of 2008. However, as a result of the annual dividend, total return to shareholders was still marginally positive for calendar 2007. AWR's compounded annual return to shareholders for the period 2003-2007 was 13.7% compared to 12.8% for the S&P 500.

EARNINGS PERFORMANCE

Basic earnings were $1.62 per share for 2007 and fully diluted earnings were $1.61 per share, compared to reported earnings per share of $1.34 and $1.33 on a basic and fully diluted basis, respectively, for 2006. Because the Company is subject to accounting adjustments each year, an investor should look beyond the current year's reported earnings to determine whether financial performance has improved. We have presented a comparison of earnings in the table on the following page, after removing two significant accounting adjustments for the years shown. A more thorough description of the two adjustments is presented in the paragraphs below the following table.

	2007	2006
Diluted EPS as reported	$ 1.61	$ 1.33
Adjusted by:		
Unrealized (gain) loss on purchased power contracts	(0.07)	.24
Water rights lease revenues from the City of Folsom recognized for prior years	0	(0.08)
Diluted EPS after removing the effects on earnings of these 2 items	$ 1.54	$ 1.49

In 2002, the Company's Bear Valley Electric Division entered into a purchased power contract that qualifies as a derivative under generally accepted accounting principles and, as a result, each month the Company has to mark to market the remaining amounts to be purchased under the contract, which expires at the end of 2008. As the contract is marked to market, an unrealized gain or loss is recognized on the income statement. The power we purchase under the derivative contract is only used to service our electric customers' demand and the Company does not engage in trading activities of purchased power. Although the unrealized gains and losses may result in significant fluctuations to our income statement, they have no effect on our cash flows. When analyzing the financial performance of the Company, we exclude the effects of derivative gains and losses as they are not reflective of day-to-day operations. For a discussion of power contracts, please see pages 29 and 50 of the attached SEC Form 10-K.

As a result of a favorable CPUC decision in 2006, GSWC recognized as a benefit to shareholders $2.3 million of revenues collected from the City of Folsom for the lease of water rights for 2004 and 2005. We have removed the associated earnings per share impact from the reported earnings in the table above. However, reported earnings for 2007 and 2006 include ongoing revenues of $1.3 million and $1.2 million, respectively, from the Folsom water rights lease.

As shown in the above table, an improvement in financial performance was indeed achieved for 2007 as compared to 2006, after removing the two significant accounting adjustments. Financial performance was bolstered in 2007 by water rate increases, higher water sales, an improved supply mix, and a significant improvement in performance at ASUS. A detailed discussion of the improved AWR performance is presented on pages 21 thru 32 of the SEC Form 10-K. Increased earnings, coupled with $51 million in cash flows generated from operations during 2007, illustrate the financial strength of the Company.

Though we are pleased that we were able to grow earnings in 2007 from the 2006 level, the Company is not without its challenges. Please see Note 13 – Contingencies beginning on page 118 of the attached SEC Form 10-K for a discussion of outstanding legal issues. In addition to the items listed under Note 13, on February 15, 2007, the CPUC issued a subpoena to GSWC in connection with an investigation of certain work orders and charges paid to a specific contractor used by GSWC for numerous construction projects. Please see page 58 of the attached SEC Form 10-K for a further discussion of this matter.

HUMAN CAPITAL MANAGEMENT

We have always been a Company that has recognized the importance of our employees to the success of the Company. In 2007, increased emphasis was placed on planning for and managing the needs of our people. The former Human Resources department was combined with our in-house Employee Development University under one umbrella, which is now named Human Capital Management. To prepare our organization for the future, we need to continue to recruit, educate, and retain some of the best and brightest in the utility industry.

GOLDEN STATE WATER COMPANY CONTINUES THE KEY TENETS OF ITS STRATEGY

Golden State Water Company continues to be the flagship of AWR representing 86% and 96% of AWR's revenues and net income, respectively, for 2007 and accounting for 92% of AWR's assets at the end of 2007. The Company has spent a great deal of time and effort in formulating a strategy that will enable GSWC to succeed well into the future. The key tenets of GSWC's strategy include: (1) timely filing for rate recovery, (2) a well-managed infrastructure replacement program, (3) a customer service culture, (4) maintaining a strong water supply portfolio and (5) establishing a rate structure that provides the right customer incentives for conservation of precious water resources.

TIMELY FILING FOR RATE RECOVERY

Timely recovery of operating expenses and capital expenditures in rates charged to customers is the life-blood of regulated utilities. We understand the importance of this and we are focused on it. In November 2007, GSWC received a favorable final decision on its Region II and General Office rate case. Though this decision was nearly one year late, GSWC was allowed to implement interim rates, with the final rates retroactive to January 1, 2007. The Company received another favorable rate decision in January 2008 on GSWC's Region I case. The financial implications of these decisions are described in detail on pages 53 thru 54 of the attached SEC Form 10-K. In 2008, we will be filing general rate cases (GRCs) for all our regulated water regions, except for Region I. This represents the largest general rate case filing in the Company's history. The new consolidated GRC is expected to have an eighteen-month processing schedule. We must also file a separate application to determine the rate of return to be authorized by the CPUC.

A WELL-MANAGED INFRASTRUCTURE REPLACEMENT PROGRAM

Managing the replacement of aging infrastructure is one of the Company's major challenges. During 2007, GSWC spent $46.7 million on capital expenditures, nearly double the Company's depreciation and in 2008 we plan to invest $53-$58 million in capital expenditures to upgrade our water supply and distribution facilities. We have hired additional people in our Asset Management area to help administer the capital expenditure process. It is also necessary to stage our capital expenditures in order to avoid rate shock to our customers.

A CUSTOMER SERVICE CULTURE

GSWC has been in business since 1929 because of our customer service culture. This is a tradition of doing "whatever it takes" to satisfy customers. We were one of the first publicly traded water companies to have a call center that was open seven days per week, twenty-four hours per day. We are currently in the process of evaluating the replacement of our Customer Information System in an effort to provide even better service. Though the system will take several years to replace, this step exhibits our desire to maintain the high service quality for which we have become known.

MAINTAINING A STRONG WATER SUPPLY PORTFOLIO

On page 13 of the attached SEC Form 10-K, one can notice that the Company has listed it groundwater rights for the first time. With all the concern about diminishing water supplies in the western states, it is imperative that the Company maintain a strong position to protect its rights to pump approximately 55% of the water supplied to customers, from company-owned production wells. Rounding out the portfolio are 46 connections to a network of pipelines owned and operated by the Metropolitan Water District of Southern California, which provide imported water supplies for 32 of the Company's 39 systems in California, representing approximately 44% of the water supplied to customers.

A RATE STRUCTURE THAT PROVIDES THE RIGHT INCENTIVES

We continue our efforts to be good stewards of the Company's valuable water resources. To that end, we have been active in sending messages to our customers to conserve water and have proposed water rates to the CPUC that encourage conservation. In February 2007, the CPUC opened an Order Instituting Investigation (Conservation OII) to consider policies designed to achieve conservation objectives. On October 19, 2007, GSWC and the Division of Ratepayers Advocates of the CPUC filed a settlement agreement regarding a conservation rate design and a water revenue adjustment mechanism (WRAM) to essentially de-couple volume of sales from GSWC's revenues. If the settlement is approved by the CPUC, GSWC would implement an increasing block rate design as a means to encourage water conservation. GSWC would also establish a WRAM balancing account to track actual revenues compared to those which are forecasted in the rate case. WRAMs have already been approved by the CPUC for use by other California water companies.

In May 2007, the CPUC issued a ruling in the Conservation OII which directed the parties in the proceeding, including GSWC, to address the issue of whether the adoption of a revenue adjustment mechanism should affect the authorized rate of return. We anticipate that the CPUC will issue a decision on this issue in the second quarter of 2008.

BEAR VALLEY ELECTRIC DIVISION OF GOLDEN STATE WATER COMPANY

GSWC provides electric service to more than 23,000 customers in the Big Bear recreational area of California through its Bear Valley Electric Division (BVE). Some of BVE's key strategies for 2008 include timely filing for rate recovery, the establishment of a new purchased-power contract for beyond 2008 and continued efforts to provide exceptional service to its customers. BVE plans to file a rate case during May 2008 that, when approved, should increase its contribution to AWR's profitability. We are currently working with a power supplier on a new purchased power contract for 2009 and beyond and are discussing with the staff of the CPUC the appropriate rate treatment for such a commitment.

AMERICAN STATES UTILITY SERVICES, INC.

2007 represented a year of growth and solid execution at this growing subsidiary. ASUS was established by AWR in 1998 to provide the Company with: 1) a relatively low-risk, growth investment that would allow us to capitalize on our competencies in operating water systems and offering related services; 2) a vehicle to diversify regulatory risk by investing in other high growth states; and 3) a footprint in other parts of the country to enable us to make other acquisitions in the water industry. 2007 was an exciting year for ASUS as it successfully completed a $20.6 million wastewater expansion project at Fort Bliss, improved its financial performance by recording pretax operating income of $2.0 million for 2007 as compared to $100,000 in 2006, and landed the water and wastewater privatizations at Fort Jackson, South Carolina and Fort Bragg, North Carolina. With the additions of Fort Jackson and Fort Bragg, ASUS is now managing water facilities at seven military bases and wastewater facilities at eight bases.

ASUS' strategy includes timely filing for request for equitable adjustments and price redeterminations at its current bases, competing for additional bases, successfully assimilating Fort Jackson and Fort Bragg, and selectively hiring staff to enhance the business. Under the privatization contracts, ASUS is allowed to obtain price adjustments (redeterminations) two years after commencing operation at a military base and every three years thereafter. We consider the price redetermination process similar to a rate case on the utility side of our business. To be successful, we need to be able to charge prices that reflect our costs of serving the military bases and we are dedicated to completing these processes in 2008.

We continue to seek new bases to manage and believe spreading the administrative costs of operating ASUS across more bases will add to profitability. The military has been slow to award bases and a number of the RFPs it has issued are stale and will be reissued. However, it is believed that the RFP responses can be updated at a relatively low cost. Operation of the water and wastewater facilities at Fort Jackson and Fort Bragg commenced on January 2, 2008 and March 1, 2008, respectively. These are significant undertakings, particularly given the size of Fort Bragg. It has been exciting to watch ASUS' growth in revenues and profitability. Such growth is managed properly through the addition of qualified people, i.e., "human capital management". We will continue to implement our high standards and be selective in whom we hire.

CHAPARRAL CITY WATER COMPANY

Chaparral City Water Company (CCWC) provides water service to approximately 13,500 customers in the Fountain Hills area of Arizona. In October 2007, CCWC filed for a rate increase with the Arizona Corporation Commission (ACC) and expects to receive a decision sometime in 2009. Providing excellent customer service and ensuring an adequate water supply continue to be two of CCWC's main goals. To that end, during 2007 CCWC entered into a commitment with the Central Arizona Conservation District to purchase 1,931 acre-feet of Central Arizona Project water rights.

CLOSING

Our board of directors, management, and all the Company's employees remain dedicated and committed to providing superior service to customers and maximizing shareholder value. In light of the increased focus on human capital management, we have designed this year's annual report around the people of American States Water. On behalf of the men and women of the Company, we would like to thank you for your continued support.

NAME: LLOYD E. ROSS
RANK: CHAIRMAN OF THE BOARD
SIGNATURE:

NAME: FLOYD E. WICKS
RANK: PRESIDENT AND CHIEF EXECUTIVE OFFICER
SIGNATURE: