

AMERICAN STATES WATER CO

Form 10-Q

August 06, 2018

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2018

or

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

Commission file number 001-14431

American States Water Company

(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of Incorporation or Organization)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of Incorporation or Organization)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

American States Water Company Yes No

Golden State Water Company Yes No

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Indicate by check mark whether Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

Table of Contents

American States Water Company Yes x No "

Golden State Water Company Yes x No "

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

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

Golden State Water Company

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act."

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

American States Water Company Yes " Nox

Golden State Water Company Yes " Nox

As of August 1, 2018, the number of Common Shares outstanding of American States Water Company was 36,733,506 shares. As of August 1, 2018, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

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

AMERICAN STATES WATER COMPANY
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

INDEX

Part I Financial Information

<u>Item 1: Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets of American States Water Company as of June 30, 2018 and December 31, 2017</u>	<u>4</u>
<u>Consolidated Statements of Income of American States Water Company for the Three Months Ended June 30, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Statements of Income of American States Water Company for the Six Months Ended June 30, 2018 and 2017</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows of American States Water Company for the Six Months Ended June 30, 2018 and 2017</u>	<u>8</u>
<u>Balance Sheets of Golden State Water Company as of June 30, 2018 and December 31, 2017</u>	<u>9</u>
<u>Statements of Income of Golden State Water Company for the Three Months Ended June 30, 2018 and 2017</u>	<u>11</u>
<u>Statements of Income of Golden State Water Company for the Six Months Ended June 30, 2018 and 2017</u>	<u>12</u>
<u>Statements of Cash Flows of Golden State Water Company for the Six Months Ended June 30, 2018 and 2017</u>	<u>13</u>
<u>Notes to Consolidated Financial Statements</u>	<u>14</u>
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
<u>Item 4: Controls and Procedures</u>	<u>50</u>
<u>Part II</u> <u>Other Information</u>	
<u>Item 1: Legal Proceedings</u>	<u>51</u>
<u>Item</u> <u>1A: Risk Factors</u>	<u>51</u>
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>

<u>Item 3: Defaults Upon Senior Securities</u>	<u>51</u>
<u>Item 4: Mine Safety Disclosure</u>	<u>51</u>
<u>Item 5: Other Information</u>	<u>51</u>
<u>Item 6: Exhibits</u>	<u>51</u>
<u>Signatures</u>	<u>55</u>

Table of Contents

PART I

Item 1. Financial Statements

General

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

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

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

Filing Format

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

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled "General" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

References in this report to "Registrant" are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report other than with respect to itself.

Forward-Looking Information

This Form 10-Q and the documents incorporated herein contain forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management's goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may" or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and the actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements or from historical results, include, but are not limited to:

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

- changes in the policies and procedures of the California Public Utilities Commission ("CPUC");

- timeliness of CPUC action on GSWC rates;

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

- wildfires in GSWC's electric division's service territory, as well as court decisions and regulatory actions that may affect our ability to recover the costs associated with such events or the defense or payment of resulting claims;

- our ability to efficiently manage GSWC capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recover our costs through rates;
- the impact of opposition to GSWC rate increases on our ability to recover our costs through rates, including costs associated with construction;

1

Table of Contents

- the impact of opposition by GSWC customers to conservation rate design as well as potential future restrictions on water use mandated in California, which decreases adopted usage and increases customer rates;

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

liabilities of GSWC associated with the inherent risks of damage to private property and injuries to employees and the public if our or their property should come into contact with electrical current or equipment, including through downed power lines or equipment malfunctions;

our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure;

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

changes in accounting valuations and estimates, including changes resulting from our assessment of anticipated recovery of GSWC's regulatory assets, settlement of liabilities and revenues subject to refund or regulatory disallowances and the timing of such recovery, and the amounts set aside for uncollectible accounts receivable, inventory obsolescence, pensions and post-retirement liabilities, taxes and uninsured losses and claims, including general liability and workers' compensation claims;

changes in environmental laws, health and safety laws and water and recycled water quality requirements and increases in costs associated with complying with these laws and requirements, including costs associated with GSWC's upgrading and building new water treatment plants, GSWC's disposing of residuals from our water treatment plants, handling and storing hazardous chemicals, compliance monitoring activities and GSWC's securing alternative water supplies when necessary;

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

our ability to attract, retain, train, motivate, develop and transition key employees;

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

the breakdown or failure of equipment at GSWC's electric division that can cause fires and unplanned electric outages, and whether GSWC will be subject to investigations, penalties, liabilities to customers or other third parties or other costs in connection with such events;

adequacy of GSWC's electric division's power supplies and the extent to which we can manage and respond to the volatility of electricity and natural gas prices;

GSWC's electric division's ability to comply with the CPUC's renewable energy procurement requirements;

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changes in GSWC's long-term customer demand due to changes in customer usage patterns as a result of conservation efforts, regulatory changes affecting demand such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by customers or purchase of recycled water supplied by other parties, unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions and cost increases, which may impact our long-term operating revenues if we are unable to secure rate increases in an amount sufficient to offset reduced demand;

• changes in accounting treatment for regulated utilities;

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

• changes in estimates used in ASUS's cost-to-cost method for revenue recognition of certain construction activities;

Table of Contents

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

• suspension or debarment of ASUS for a period of time from contracting with the government due to violations of laws or regulations in connection with military utility privatization activities;

• delays by the U.S. government in making timely payments to ASUS for water and/or wastewater services or construction activities at military bases because of fiscal uncertainties over the funding of the U.S. government or otherwise;

• delays in ASUS obtaining economic price or equitable adjustments to our prices on one or more of our contracts to provide water and/or wastewater services at military bases;

• disallowance of costs on any of ASUS's contracts to provide water and/or wastewater services at military bases because of audits, cost reviews or investigations by contracting agencies;

• inaccurate assumptions used by ASUS in preparing bids in our contracted services business;

• failure of wastewater systems that ASUS operates on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers;

• failure to comply with the terms of our military privatization contracts;

• failure of any of our subcontractors to perform services for ASUS in accordance with the terms of our military privatization contracts;

• competition for new military privatization contracts;

• issues with the implementation, maintenance or upgrading of our information technology systems;

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

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

• the impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand, that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely or that damage the property of our customers or other third parties or cause bodily injury resulting in liabilities that we may be unable to recover from insurance, other third parties and/or the U.S. government or that the CPUC or the courts do not permit us to recover from ratepayers;

• potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption due to a cyber-attack or other cyber incident;

increases in the cost of obtaining insurance or in uninsured losses that may not be recovered in rates, or under our contracts with the U.S. government, including increases due to difficulties in obtaining insurance for certain risks, such as wildfires and earthquakes in California;

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

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

Please consider our forward-looking statements in light of these risks (which are more fully disclosed in our 2017 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all our forward-looking statements by these cautionary statements.

Table of Contents

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	June 30, 2018	December 31, 2017
Property, Plant and Equipment		
Regulated utility plant, at cost	\$ 1,766,543	\$ 1,722,421
Non-utility property, at cost	21,113	15,941
Total	1,787,656	1,738,362
Less - Accumulated depreciation	(548,867)	(533,370)
Net property, plant and equipment	1,238,789	1,204,992
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	24,073	24,070
Total other property and investments	25,189	25,186
Current Assets		
Cash and cash equivalents	5,557	214
Accounts receivable — customers (less allowance for doubtful accounts of \$751 in 2018 and \$806 in 2017)	26,631	26,127
Unbilled receivable	24,681	26,411
Receivable from the U.S. government	25,977	3,725
Other accounts receivable (less allowance for doubtful accounts of \$59 in 2018 and \$235 in 2017)	4,648	8,251
Income taxes receivable	178	4,737
Materials and supplies, at average cost	5,364	4,795
Regulatory assets — current	25,209	34,220
Prepayments and other current assets	6,769	5,596
Contract assets	16,153	—
Costs and estimated earnings in excess of billings on contracts	—	41,387
Total current assets	141,167	155,463
Regulatory and Other Assets		
Receivable from the U.S. government	30,284	—
Costs and estimated earnings in excess of billings on contracts	—	25,426
Other	5,693	5,667
Total regulatory and other assets	35,977	31,093
Total Assets	\$ 1,441,122	\$ 1,416,734

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

Table of ContentsAMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	June 30, 2018	December 31, 2017
Capitalization		
Common shares, no par value		
Authorized: 60,000,000 shares		
Outstanding: 36,733,506 shares in 2018 and 36,680,794 shares in 2017	\$251,092	\$ 250,124
Earnings reinvested in the business	288,118	279,821
Total common shareholders' equity	539,210	529,945
Long-term debt	281,031	321,039
Total capitalization	820,241	850,984
Current Liabilities		
Notes payable to bank	—	59,000
Long-term debt — current	40,313	324
Accounts payable	43,391	50,978
Income taxes payable	486	225
Accrued other taxes	7,904	7,344
Accrued employee expenses	11,897	12,969
Accrued interest	3,834	3,861
Unrealized loss on purchased power contracts	1,710	2,941
Contract liabilities	7,043	3,911
Other	13,262	15,109
Total current liabilities	129,840	156,662
Other Credits		
Notes payable to bank	77,000	—
Advances for construction	66,761	67,465
Contributions in aid of construction - net	123,950	123,602
Deferred income taxes	115,374	115,703
Regulatory liabilities	36,008	32,178
Unamortized investment tax credits	1,402	1,436
Accrued pension and other postretirement benefits	59,402	57,695
Other	11,144	11,009
Total other credits	491,041	409,088
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	\$1,441,122	\$ 1,416,734

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

Table of Contents

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED JUNE 30, 2018 AND 2017
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended June 30,	
	2018	2017
Operating Revenues		
Water	\$76,733	\$80,734
Electric	7,841	7,612
Contracted services	22,327	24,849
Total operating revenues	106,901	113,195
Operating Expenses		
Water purchased	16,608	17,937
Power purchased for pumping	2,231	2,157
Groundwater production assessment	4,534	4,931
Power purchased for resale	2,384	2,308
Supply cost balancing accounts	(2,029)	(5,293)
Other operation	7,782	8,172
Administrative and general	20,213	20,248
Depreciation and amortization	10,010	9,647
Maintenance	3,670	3,606
Property and other taxes	4,372	4,345
ASUS construction	11,576	