AMERICAN STATES WATER CO
Form 10-K
March 16, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006 or

o 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	Registrant, State of Incorporation Address and Telephone Number	IRS Employer Identification No.
001-14431	**American States Water Company** (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1207 (909) 394-3600	**95-4676679**
001-12008	**Golden State Water Company** (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	**95-1243678**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American States Water Company Common Shares	**New York Stock Exchange**
Rights to Purchase Junior Participating Preferred Stock	

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

American States Water Company Yes o No x

Golden State Water Company Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

American States Water Company Yes o No x

Golden State Water Company Yes o No x

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

American States Water Company Yes x No o

Golden State Water Company Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

American States Water Company

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Golden State Water Company

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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 o No x

Golden State Water Company Yes o No x

The aggregate market value of the total voting common stock held by non-affiliates of American States Water Company was approximately $605,212,000 and $655,397,000 on June 30, 2006 and March 12, 2007, respectively. The closing price per Common Share on March 12, 2007, as quoted in the Western Edition of *The Wall Street Journal*, was $38.42. As of March 12, 2007, the number of Common Shares of American States Water Company, outstanding was 17,058,746. As of that same date, American States Water Company owned all 122 outstanding Common Shares of Golden State Water Company. The aggregate market value of the total voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2006 and March 12, 2007.

Documents Incorporated by Reference:

Portions of the Proxy Statement of American States Water Company will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 13 and 14 and portions of Item 12, in each case as specifically referenced herein.

AMERICAN STATES WATER COMPANY
and

GOLDEN STATE WATER COMPANY

FORM 10-K

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PART I

Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter AWR), and Golden State Water Company (hereinafter GSWC). 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 relating to AWR and its subsidiaries, other than GSWC.

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, www.aswater.com, as soon as material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Such reports are also available on the SEC s internet website at http://www.sec.gov. AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its nominating and governance committee, its compensation committee and its audit and finance committee through its website or by calling (800) 999-4033. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2006.

AWR submitted a CEO Certification to the New York Stock Exchange on June 6, 2006 certifying that the Registrant was in compliance with the corporate governance rules of the New York Stock Exchange.

General

American States Water Company is the parent company of GSWC, American States Utility Services, Inc. (ASUS) and its subsidiaries, and Chaparral City Water Company (CCWC). AWR was incorporated as a California corporation in 1998 as a holding company.

GSWC is a California public utility company engaged principally in the purchase, production and distribution of water. GSWC also distributes electricity in one customer service area. GSWC is regulated by the California Public Utilities Commission (CPUC) and was incorporated as a California corporation on December 31, 1929. GSWC is organized into one electric customer service area and three water service regions operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I consists of 7 customer service areas in northern and central California; Region II consists of 4 customer service areas located in Los Angeles County; and Region III consists of 10 customer service areas in eastern Los Angeles County, and in Orange, San Bernardino and Imperial counties. GSWC also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley Electric service division.

GSWC served 253,970 water customers and 23,248 electric customers at December 31, 2006, or a total of 277,218 customers, compared with 275,811 total customers at December 31, 2005. GSWC s utility operations exhibit seasonal trends. Although GSWC s water utility operations have a diversified customer base, residential and commercial customers account for the majority of GSWC s water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 91% of total water revenues for the years ended December 31, 2006 and 2005.

CCWC is an Arizona public utility company serving 13,343 customers as of December 31, 2006, compared with 13,001 customers at December 31, 2005. Located in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona, the majority of CCWC s customers are residential. The Arizona Corporation Commission (ACC) regulates CCWC.

ASUS contracts, either directly or through wholly-owned subsidiaries, with various municipalities, the U.S. Government and private entities to provide water and wastewater services, including billing and meter reading, water marketing and the operation and maintenance of water and wastewater systems. On October 1, 2004, ASUS commenced operation of the water and wastewater systems at Fort Bliss located near El Paso, Texas, through Fort Bliss Water Service Company (FBWS), pursuant to the terms of a 50-year contract with the U.S. Government. ASUS commenced operation and maintenance of the water and wastewater systems at Andrews Air Force Base in Maryland on February 1, 2006 through Terrapin Utility Services, Inc. (TUS) pursuant to the terms of a 50-year contract. ASUS commenced operation and maintenance of the wastewater systems at Fort Lee in Virginia through Old Dominion Utility Services, Inc. (ODUS) on February 23, 2006 pursuant to the terms of a 50-year contract. ASUS also commenced operation of the water and wastewater systems at Fort Eustis, Fort Story and Fort Monroe in Virginia through ODUS on April 3, 2006 pursuant to the terms of a 50-year contract. These contracts are each subject to termination for convenience by the U.S. Government. The contract price for each of these contracts is subject to re-determination two years after commencement of operations and every three years thereafter to the extent provided in each of the contracts. Prices are also subject to equitable adjustment based upon changes in circumstances and changes in wages and fringe benefits to the extent provided in each of the contracts. We may refer to FBWS, ODUS and TUS collectively as the Military Privatization Subsidiaries herein.

ASUS and GSWC have been pursuing an opportunity to provide retail water services within the service area of the Natomas Central Mutual Water Company (Natomas). Natomas is a California mutual water company which currently provides water service to its shareholders, primarily for agricultural irrigation in portions of Sacramento and Sutter counties in northern California

In August 2004, Natomas and ASUS entered into a contract under which ASUS acts as the exclusive agent for marketing water that has become temporarily surplus to the internal needs of Natomas and that arises under water rights permits and contracts owned or controlled by Natomas, to third parties outside the Natomas service area. On January 31, 2006, ASUS and Natomas entered into a water purchase and sale agreement under which ASUS will acquire 5,000 acre-feet of permanent Sacramento River water diversion rights from Natomas. Pursuant to the terms of this agreement, Natomas will sell, transfer and convey to ASUS, in perpetuity, water rights and entitlements to divert from the Sacramento River up to 5,000 acre-feet of water per year, subject to certain regulatory approvals. Terms of the acquisition, among other things, include a base price of $2,500 per acre-foot of water, with payments contingent on achievement of specific milestones and events over a 10-year period. Pursuant to the marketing services agreement described above, Natomas will pay to ASUS a commission of 16% of the sale price over the same 10-year period. At the same time that the water purchase agreement was completed, Natomas and ASUS also entered into a settlement agreement that released Natomas from previously established reimbursement obligations under prior agreements. ASUS may use the water rights acquired from Natomas to serve existing customers, to re-sell to other beneficial users, or to pursue and serve expanded service territories.

GSWC and Natomas have also entered into a water transfer agreement under which GSWC agreed to purchase and Natomas agreed to sell up to 30,000 acre-feet of water to be used exclusively by GSWC to serve customers in Sutter County, California. Additionally, GSWC filed for a Certificate of Public Convenience and Necessity with the CPUC on May 31, 2006 to provide retail water service in a portion of Sutter County, California. CPUC review of the application has been deferred pending completion of an environmental assessment for the proposed new water service. All of the agreements with Natomas are subject to receipt of various regulatory approvals required for their full implementation.

Certain financial information for each of AWR s principal business units, water distribution, electric distribution, and contract services is set forth in Note 15 to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. The Company s water and electric distribution segments are not dependent upon a single or only a few customers. The U.S. Government is the largest customer for ASUS s contract services.

The revenue from most of the Company s business segments is seasonal. The impact of seasonality on the Company s businesses is discussed in more detail in Item 1A *Risk Factors* .

Competition

The businesses of GSWC and CCWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. GSWC and CCWC compete with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. AWR s other subsidiary, ASUS, actively competes for business with other investor-owned utilities, other third party providers of water and wastewater services, and governmental entities on the basis of price and quality of service.

Employee Relations

GSWC had 516 employees as of December 31, 2006 as compared to 513 at December 31, 2005. Eighteen positions in GSWC s Bear Valley Electric customer service area are covered by a collective bargaining agreement, which expired on December 31, 2006, with the International Brotherhood of Electrical Workers (IBEW) and is currently under re-negotiation. Sixty-two positions in GSWC s Region II ratemaking district are covered by a collective bargaining agreement with the Utility Workers Union of America (UWUA), which expires in 2007. GSWC has no other unionized employees.

CCWC had fourteen employees as of December 31, 2006, all of whom are non-union. ASUS had nine employees as of December 31, 2006, all of whom are non-union. FBWS had eight employees as of December 31, 2006, three of whom are non-union. The non-management employees at FBWS were previously covered by a collective bargaining agreement with their former employer (who operated the Fort Bliss water and wastewater systems prior to FBWS), which agreement had a successor clause. Pursuant to the successor clause, a representative of the International Union of Operating Engineers sought representation of the FBWS non-management employees. A three-year agreement between FBWS and the IUOE was ratified in March 2006 and will expire in 2008. ODUS had six employees and TUS had four employees as of December 31, 2006, all of whom are non-union.

Forward-Looking Information

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant believes, anticipates, expects or words of similar import. Similarly, statements that describe Registrant s future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, GSWC s ability to recover electric, natural gas and water supply costs from ratepayers, contract operations, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as changes in utility regulation, including ongoing local, state and federal activities; recovery of regulatory assets not yet included in rates; future economic conditions, including changes in customer demand and changes in water and energy supply costs; future climatic conditions; and legislative, legal proceedings, regulatory and other circumstances affecting anticipated revenues and costs.

Item 1A Risk Factors

You should carefully read the risks described below and other information in this Form 10-K in order to understand certain of the risks of our business.

Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business

Our revenues depend substantially on the rates that we are permitted to charge our customers and our ability to recover our costs in these rates on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electric power and natural gas costs, costs incurred in connection with increased environmental regulation and requirements to increase security at our water facilities in rates. Any delays by either the CPUC or the ACC in granting rate relief to cover increased operating and capital costs may adversely affect our financial performance. A law in California affords the Company an opportunity to file for interim rates in situations where there may be delays in granting final rate relief. However, interim rate relief is not a guarantee that the full amount of rate increase filed will ultimately be approved by the CPUC.

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses and may overturn past decisions used in determining our revenues and expenses. Management continually evaluates the anticipated recovery of regulatory assets, liabilities, and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. In the event that our assessment as to the probability of recovery through the ratemaking process proves to be incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or any regulatory disallowances. As of December 31, 2006, we had net regulatory assets of $84.5 million, representing future revenues we expect to recover from customers through the ratemaking process. A change in our evaluation of the probability of recovery of regulatory assets or a regulatory disallowance of all or a portion of our costs could have a material adverse effect on the Company s financial results.

We are also in some cases required to estimate future expenses and in others we are required to incur the expense before we may recover our costs. As a result, our revenues and earnings may fluctuate depending on the accuracy of our estimates, timing of our investments or expenses or other factors. If expenses increase significantly over a short period of time, as occurred in our Bear Valley Electric division during the 2000-2001 energy crisis in California, we may experience delays in recovery of these expenses, the inability to recover carrying costs for these expenses and increased risks of regulatory disallowances or write-offs.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows. Changes in policies of the U.S. Government may also adversely affect our military base contract operations. In certain circumstances, the U.S. Government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of state regulatory agencies with jurisdiction over the activities of the Military Utility Privatization Subsidiaries or may require us to bid on work that we believe is covered by the contract awarded to us, thereby reducing the returns that we anticipated at the time of execution of the contract.

Our earnings are greatly affected by weather during different seasons

The demand for water and electricity varies by season. Therefore, the results of operations for one period may not indicate results to be expected in another period. For instance, most water consumption occurs during the third quarter of each year when weather in our service areas tends to be hot and dry. During this period, our revenues and profitability are usually higher than in the other quarters. Drought or unusually wet conditions may also adversely impact our revenues and profitability. During a drought, we may experience both lower revenues due to consumer conservation efforts and higher water and operating costs due to supply shortages.

The demand for electricity in our Bear Valley Electric service area is greatly affected by winter snows. An increase in winter snows reduces the use of snowmaking machines at ski resorts in the Big Bear area and, as a result reduces electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions, which also reduces electric revenues.

Our liquidity and earnings may be adversely affected by changes in water supply costs

We obtain water from a variety of sources. For example, we pump water from aquifers within our service areas to meet a portion of the demands of our customers. When water produced from our wells is insufficient to meet customer demand or when such production is interrupted, we purchase water from others. As a result, our cost of providing, distributing and treating water for our customers   use can vary significantly based on conditions that are often beyond our control. Furthermore, alternative sources of water, such as the Metropolitan Water District of Southern California (MWD   ) and the Central Arizona Project (CAP   ), may not always have an adequate supply of water to sell to us.

We have established a memorandum account for offsettable expenses of purchased water, purchased power and groundwater related pump taxes for our water service areas in California. Even under the memorandum account procedure, changes in water supply costs, such as those that occur due to changes in supply mix (purchased water volume vs. pumped water, for instance) compared to the authorized amount may directly affect our earnings.

Significant claims have been asserted against us in water quality litigation

We were sued, along with others, in nineteen water quality related lawsuits alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated. These lawsuits, involving plaintiffs who received water from two groundwater basins in Los Angeles County, were dismissed in August 2004. Several plaintiffs filed an appeal on September 21, 2004. On February 7, 2006, the Second Appellate District in which the appellate briefs were filed moved the California Supreme Court to transfer the appeal to the First Appellate District, the District in which prior appeals regarding these cases had been heard. The transfer motion is still pending.   If the appeal is granted and the complaints reinstated, GSWC will vigorously contest both damage and liability.

Our operating costs have increased and are expected to continue to increase as a result of groundwater contamination

Our operations have been impacted by groundwater contamination in certain of our service territories. We have taken a number of steps to address this contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in our service area in order to slow the movement of plumes of contaminated water, construction of water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination.

In some cases, potentially responsible parties have reimbursed us for our costs. In other cases, we have taken legal action against parties that we believe to be potentially responsible for the contamination. To date, the CPUC has permitted GSWC to establish memorandum accounts for recovery of these types of costs. As a result, our memorandum and water supply balancing accounts are high by historical standards. Moreover, we can give no assurance regarding the outcome of litigation arising out of this contamination or our ability to recover these costs in the future.

Persons who are potentially responsible for causing the contamination of groundwater supplies have also been increasingly asserting claims against water distributors on a variety of theories and have thus far brought the water distributors (including us) within the class of potentially responsible parties in Federal court actions pending in Los Angeles County. This increases the costs of seeking recovery from the potentially responsible parties and the risks associated with seeking recovery of these costs. Management believes that rate recovery, proper insurance coverage and reserves are in place to appropriately manage these types of claims. However, such claims, if ultimately resolved unfavorably to the Company, could, in the aggregate, have a material adverse effect on our results of operations and financial condition.

Environmental regulation has increased, and is expected to continue to increase our operating costs

Environmental regulation has increased with improved detection technology and heightened consumer awareness of water quality issues. As a result, our capital and operating costs have increased substantially as we upgrade our water treatment plants, build new water treatment plants, increase our monitoring compliance activities and remove wells from service when necessary to address contamination issues.

GSWC and CCWC may be able to recover these costs through the ratemaking process. We may also be able to recover these costs under some of our contractual arrangements. In certain circumstances, we may be able to recover costs from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action. We may incur significant costs in connection with our recovery efforts. Moreover, our ability to recover these types of costs depends upon a variety of factors beyond our control, including approval of rate increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination and the extent and magnitude of the contamination. We can give no assurance regarding the adequacy of any such recovery to offset such costs.

The Military Utility Privatization Subsidiaries also operate subject to increasingly stringent environmental regulations. The contracts provide various mechanisms for recovery of the costs associated with meeting evolving environmental and water quality requirements, including increasing revenues through change in conditions provisions and equitable adjustment procedures. Our contracts with the U.S. Government are, however, subject to the Anti-Deficiency Act. As a result, our ability to recover these costs may depend upon Congressional action to appropriate funds to pay these costs.

The adequacy of our water supplies depends upon a variety of factors beyond our control

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

Rainfall, runoff, flood control and availability of storage

Availability of Colorado River water and imported water from northern California

The amount of useable water stored in reservoirs and groundwater basins

The amount of water used by our customers and others

Water quality

Legal limitations on production, diversion, storage, conveyance and use

Population growth and increases in the amount of water used have caused increased stress on surface supplies and groundwater basins. The importation of water from the Colorado River, one of GSWC s important sources of supply, is expected to decrease in future years due to the competing requirements of the CAP and other limitations on the amount of water that the MWD is entitled to take from the Colorado River. MWD is expected to increase its efforts to secure additional supplies from conservation, desalination and water exchanges with agricultural water users, but we do not know to what extent these expectations will be fulfilled.

CCWC obtains its water supply from operating wells and from the Colorado River through the CAP. CCWC s water supply may be subject to interruption or reduction if there is an interruption or reduction in water supplies available to CAP. In addition, CCWC s ability to provide water service to new real estate developments is dependent upon CCWC s ability to meet the requirements of the Arizona Department of Water Resources regarding the Company s assured water supply account.

Water shortages may affect us in a variety of ways:

They may adversely affect supply mix, for instance causing us to rely on more expensive water sources

They may adversely affect operating costs, for instance by increasing the cost of producing water from depleted aquifers

They may result in an increase in capital expenditures, for example by requiring us to build pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers and reservoirs and other facilities to conserve or reclaim water

We may be able to recover increased operating and capital costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our liquidity, and in certain circumstances, earnings, may be adversely affected by increases in electricity and natural gas prices in California

Most of our electric energy sold to customers in our Bear Valley Electric customer service area is purchased from others under contracts that expire at the end of 2008 at an average price of $74.65 per megawatt per hour (MWh). In addition to the purchased power contracts, we also buy additional energy from the spot market to meet peak demand and sell surplus power to the spot market during times of reduced energy demand. We also operate a natural gas-fueled 8.4 megawatt (MW) generator.

During the energy crisis in late 2000 and 2001, we incurred approximately $23.1 million of additional energy purchase costs that were not covered in rates. We are permitted by the CPUC to collect a surcharge of $2.2¢ per kilowatt hour from our customers through August 2011 to recover this under-collected balance. Approximately $14.2 million of the $23.1 million incurred during the energy crisis has been recovered through this surcharge. In addition, we are authorized by the CPUC to recover our energy purchase costs from ratepayers up to an annual weighted average cost of $77 per MWh each year through August 2011. We are required to write-off costs in excess of this cap. As a result, we are currently at risk for increases in spot market prices of electricity that we purchase and for decreases in spot market prices for electricity that we sell. Since the energy crisis in late 2001, an approximate $10.9 million of power costs in excess of the amounts authorized in rates has also been added to the electric balancing account, resulting primarily from increases in costs associated with the transportation of energy to the service area. At December 31, 2006, approximately $19.9 million remains as an under-collection in the electric supply cost balancing account resulting from these activities.

Unexpected outages at the generator that we operate, or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electric prices.

Changes in electricity prices also affect the unrealized gains and losses on our block forward contracts that qualify as derivative instruments as the asset or liability on these contracts is adjusted to reflect the fair market value of the contracts at the end of each month. As a result of decreases in energy prices, we have recorded as of December 31, 2006 a cumulative unrealized loss of $3.7 million related to these contracts. Unrealized gains and losses will continue to affect earnings until the expiration of these contracts at the end of 2008.

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums of money for additions to or replacement of property, plant and equipment. During the years ended December 31, 2006, 2005 and 2004, we spent $66,599,000, $71,184,000 and $84,216,000, respectively, for these purposes. Our estimated capital expenditures for calendar year 2007 are expected to be approximately $65 million.

We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which are repaid over a period of time at no interest). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank credit facility that we can use for these purposes. We cannot assure you that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

We operate in areas subject to natural disasters or that may be the target of terrorist activities

We operate in areas that are prone to earthquakes, fires, mudslides and other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in Southern California, where our operations are concentrated, or other natural disaster in California could adversely impact our ability to deliver water and adversely affect our costs of operations. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account as another possible mechanism to recover these costs.

Our utility and other assets could also be targeted by terrorists seeking to disrupt services to our customers. We may also be prevented from providing water and wastewater services in the military bases that we serve in times of military crisis affecting these bases. We have invested in securing company facilities throughout our service areas.

The expansion of our contract operations under ASUS will expose us to different risks than those associated with our other utility operations

We are incurring additional costs at ASUS in connection with the expansion of our contract operations associated with the preparation of bids, the negotiation of the terms of new contracts and start-up activities associated with new contracts. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts and our ability to recover those costs and other costs from revenues from new contracts.

In addition, we must maintain the proper management of water and wastewater facilities and find state-certified and qualified employees to support the operation. Failure to do so could put us at risk, among other things, of operations errors at these facilities and for improper billing and collection procedures as well as loss of contracts, assessment of penalties for operational failures and loss of revenues.

Our military privatization contracts create certain risks that are different from that of our other utility operations

We have entered into contracts to provide water and wastewater services at military bases pursuant to 50-year fixed price contracts, all subject to periodic price re-determination. These contracts are subject to termination for the convenience of the government and for failure to meet guaranteed performance standards. In addition, the U.S. Government may stop work under the terms of the contracts or delay performance of our obligations under the contracts.

Our contract pricing was based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials. We may be unable to recover all of our costs if any of these assumptions are inaccurate or we failed to consider all costs that we may incur in connection with performing the work. We are also subject to price adjustments at the time of price re-determination or in connection with requests for equitable adjustments or other changes permitted by the terms of the contracts.

We manage engineering and construction activities for water and wastewater facilities, where design, construction or systems failures may result in injury or damage to third parties. Any liability in excess of claims against our subcontractors, their performance bonds and our insurance limits at these facilities could result in claims against us which may adversely affect our profits.

If there is a dispute with the U.S. Government regarding performance under these contracts or the amounts owed to us, the U.S. Government may delay, reject or withhold payment to us. If we are ultimately unable to collect these payments on a timely basis, our profits and cash flows would be adversely affected.

We are a holding company that depends on cash flow from GSWC to meet our obligations and to pay dividends on our Common Shares

As a holding company, we conduct substantially all of our operations through our subsidiaries and our only significant assets are investments in those subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our Common Shares. More than 90% of our earnings are derived from the operations of GSWC. Moreover, neither CCWC nor ASUS has paid any dividends to us during 2006, 2005 or 2004. As a result, we are dependent on cash flow from GSWC to meet our obligations and to pay dividends on our Common Shares.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on our debt. Dividends are only paid if and when declared by the respective subsidiary Board. Moreover, GSWC is obligated to give first priority to its own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the CPUC in its most recent decision on capital structure, in order that ratepayers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets in the unlikely event of liquidation or reorganization of GSWC is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from GSWC in a timely manner we may be unable to meet our obligations, make additional investments in CCWC or ASUS or pay dividends.

Our operations are geographically concentrated in California

Although we own water and wastewater facilities in a number of states, over 90% of our operations are located in California, particularly southern California. As a result, we are largely subject to weather, political, water supply, labor, utility cost, regulatory and economic risks affecting California.

Item 1B Unresolved Staff Comments

None.

Item 2 - Properties

Franchises

GSWC holds Certificates of Public Convenience and Necessity granted by the CPUC in each of the ratemaking districts it serves. CCWC holds Certificates of Public Convenience and Necessity granted by the ACC for the areas in which it serves. . In addition, FBWS holds a Certificate of Public Convenience and Necessity from the Texas Commission on Environmental Quality. The Virginia State Corporation Commission exercises jurisdiction over ODUS as a public service company. The Maryland Public Service Commission has determined it was in the public interest and consistent with public convenience and necessity to conditionally approve the right of TUS to operate as a water and wastewater utility service at Andrews Air Force Base, Maryland in accordance with the terms and conditions of the contract with the U.S. Government

Electric Properties

GSWC s electric properties are all located in the Big Bear area of San Bernardino County in California. As of December 31, 2006, GSWC owned and operated 29 miles of overhead 34.5 kv transmission lines, 1 mile of underground 34.5 kv transmission lines, 176 miles of 4.16 kv or 2.4 kv distribution lines, 53 miles of underground cable, 14 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

Office Buildings

Registrant s general headquarters are housed in a single-story office building located in San Dimas, California. The land and the building are owned by GSWC. GSWC also owns and/or leases certain facilities housing regional, district and customer service offices. CCWC owns its primary office space in Fountain Hills, Arizona. ASUS leases an office facility in Costa Mesa, California.

Water Properties

As of December 31, 2006, GSWC s physical properties consisted of water transmission and distribution systems which included 2,720 miles of pipeline together with services, meters and fire hydrants and approximately 430 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including five surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using pipes and appurtenances for transmitting and distributing water.

As of December 31, 2006, GSWC owned 256 wells. All wells are equipped with pumps with an aggregate production capacity of approximately 257 million gallons per day. GSWC has 64 connections to the water distribution facilities of the MWD and other municipal water agencies. GSWC s storage reservoirs and tanks have an aggregate capacity of approximately 113 million gallons. GSWC owns no dams in its customer service areas. The following table provides, in greater detail, selected water utility plant of GSWC for each of its water regions:

	Pumps		Distribution Facilities			Reservoirs		
District	Well	Booster	Mains*	Services	Hydrants	Tanks	Capacity*	
Region I	75	126	533	55,572	3,986	47	34,500	
Region II	58	78	971	100,405	8,637	32	23,333	
Region III	123	201	1,216	97,993	10,387	81	55,415	(1)
Total	256	405	2,720	253,970	23,010	160	113,248	

* Reservoir capacity is measured in thousands of gallons. Mains are in miles.

(1) GSWC has additional reservoir capacity in its Claremont system, through an exclusive right to use all of one 8 million gallon reservoir, one-half of another 8 million gallon reservoir, and one-half of a treatment plant s capacity, all owned by Three Valleys Municipal Water District.

As of December 31, 2006, CCWC s physical properties consisted of water transmission and distribution systems, which included 184 miles of pipeline, together with services, meters, fire hydrants, wells, reservoirs with a combined storage capacity of 7.55 million gallons and other water utility facilities including a surface water treatment plant, which treats water from the CAP.

Mortgage and Other Liens

As of December 31, 2006, GSWC had no mortgage debt outstanding, encumbrances or liens securing indebtedness.

As of December 31, 2006, substantially all of the utility plant of CCWC was pledged to secure its Industrial Development Authority Bonds, which among other things, restricts CCWC s ability to incur debt and make liens, sell, lease or dispose of assets, or merge with another corporation, and pay dividends.

As of December 31, 2006, neither AWR nor ASUS or any of its subsidiaries had any mortgage debt or liens securing indebtedness, outstanding.

Condemnation of Properties

The laws of the State of California and the State of Arizona provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, however, the laws of the State of California also provide: (i) that the owner of utility property may contest whether the condemnation is actually necessary and in the public interest; and (ii) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken by eminent domain.

Although the City of Claremont, California located in GSWC s Region III, has not initiated the formal condemnation process pursuant to California law, the City has expressed various concerns to GSWC about the rates charged by GSWC and the effectiveness of the CPUC s rate setting procedures. The City hired a consultant to perform an appraisal of the value of Registrant s water system serving the City. The value was estimated in 2004 by the consultant at $40 - $45 million. GSWC disagrees with the consultant s valuation assessment. As of December 31, 2006, management believes that the fair market value of the system exceeds the $39 million recorded net book value and also exceeds the consultant s estimates of the value of the Claremont water system.

On April 12, 2005, the Town Council of the Town of Apple Valley located in GSWC s Region III, voted 5-0 to authorize Town staff to prepare a Request for Proposal for an evaluation of the feasibility and estimated cost of and a time frame for the potential takeover of GSWC s Apple Valley water systems as well as the water systems of another privately-owned utility serving the Town. On April 11, 2006 the Town Council unanimously decided to move forward with efforts to acquire all the water systems serving the Town, based on a study authorized by the Town Council. On July 25, 2006, the Town Council voted 4-0 to defer any further consideration of a takeover pending preparation by Town staff of financing options and costs to residents of any acquisition. No time frame was set for staff to report back to the Council. On March 13, 2007, the Town Council voted 4-0 to discontinue any activity towards the takeover of the Apple Valley water systems.

Except for the City of Claremont and the Town of Apple Valley, Registrant has not been, within the last three years, involved in activities related to the condemnation of any of its water customer service areas or in its Bear Valley Electric customer service area.

Item 3 - Legal Proceedings

Water Quality-Related Litigation

In 1997, GSWC was named as a defendant in nineteen lawsuits that alleged that GSWC and other water utilities, delivered unsafe water to their customers in the San Gabriel Valley and Pomona Valley areas of Los Angeles County. Plaintiffs in these actions sought damages, including general, special, and punitive damages, as well as attorney s fees on certain causes of action, costs of suit, and other unspecified relief. The nineteen lawsuits involve customer service areas located in Los Angeles County and were filed in Los Angeles Superior Court: Robert Arenas, et al. v. Suburban Water Systems, Inc., et al., Case No. KC037559, Anthony John Bell, et al. v. City of Pomona, et al., Case No. KC038796, Adler, et al. v. Southern California Water Company, et al., Case No. BC169892, Santamaria, et al. v. Suburban Water Systems, et al., Case No. KC025995, Georgianna Dominguez et al. v. Southern California Water Company, et al., Case No. GC021657, Anderson, et al. v. Suburban Water Company, et al., Case No. KC028524, Abarca, et al. v. City of Pomona, et al., Case No. K027795, Celi, et al. v. San Gabriel Valley Water Company, Case No. GC020622, Boswell et al. v. Suburban Water Systems, et al., Case No. KC027318, Demciuc et al. v. Suburban Water Systems, et al., Case No. KC028732, Antoinette Adejare, et al. v. City of Pomona, et al., Case No. KC031096, Almelia Brooks, et al. v. Suburban Water System, et al., Case No. KC032915, Lori Alexander, et al. v. Suburban Water Systems, et al., Case No. KC031130, David Arnold, et al. v. City of Pomona, et al., Case No. KC034636, Gilda Ambrose-Dubre, et al. v. City of Pomona, et al., Case No. KC032906, Melissa Garrity Alvarado, et al. v. Suburban Water Systems et al., Case No. KC034953, Charles Alexander, et al. v. City of Pomona, et al., Case No KC035526, Criner, et al. v. San Gabriel Valley Water Company, et al., Case No. GC021658, and Donerson, et al. v. City of Pomona, et al., Case No. KC035987.

On August 4, 2004, the trial court Judge dismissed GSWC from all nineteen Los Angeles County cases. The order of dismissal followed a lengthy legal proceeding dating back to April 1997 when the first of the cases was filed. The Court found GSWC did not violate established water quality standards and dismissed the cases after allowing reasonable time and opportunity for the plaintiffs to prove otherwise. On September 21, 2004, GSWC received notice that several plaintiffs filed an appeal to the trial court s order to dismiss GSWC. Briefs and reply briefs on the appeal have been filed; however, no date for a hearing before the appeals court has been set yet. On February 7, 2006, the Second Appellate District in which the briefs were filed moved the California Supreme Court to transfer the appeal to the First Appellate District, the District in which prior appeals regarding these cases had been heard. GSWC is unable to predict the outcome of this appeal but will continue to vigorously defend against the appeal by the plaintiffs.

GSWC is subject to self-insured retention (deductible) provisions of $500,000 per claim in its insurance policies applicable to the above claims and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. GSWC s various insurance carriers have, to date, provided reimbursement for much of the costs incurred above the self-insured amounts for defense against these lawsuits, subject to a reservation of rights. In addition, the CPUC has issued certain decisions, which authorize GSWC to establish a memorandum account to accumulate costs for future recovery to comply with certain contamination remediation requirements.

Other Water Quality Litigation

Perchlorate and/or Volatile Organic Compounds (VOC) have been detected in five wells servicing GSWC s San Gabriel System. GSWC filed suit in federal court, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), against some of those allegedly responsible for the contamination. Some of the other potential defendants settled with GSWC, other water purveyors and the WQA (the Water Entities) on VOC related issues prior to the filing of the lawsuit. In response to the filing of the lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the potentially responsible party s motions.

A key ruling of the court was that the water purveyors, including GSWC, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

Registrant has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an innocent party under CERCLA. Registrant is presently unable to predict the outcome of this ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells. In this same suit, the PRPs have filed cross-complaints against the Water Entities, the Metropolitan Water District, the Main San Gabriel Basin Watermaster and others on the theory that they arranged for and did transport contaminated water into the Main San Gabriel Basin for use by Registrant and the other two affected water purveyors and for other related claims.

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On August 29, 2003, the US Environmental Protection Agency (EPA) issued Unilateral Administrative Orders (UAO) against 41 parties deemed responsible for polluting the groundwater in that portion of the San Gabriel Valley from which two of GSWC s impacted wells draw water. GSWC was not named as a party to the UAO. The UAO requires that these parties remediate the contamination. The judge in the federal lawsuit has appointed a special master to oversee mandatory settlement discussions between the PRPs and the Water Entities. EPA is also conducting settlement discussions with several PRPs regarding the UAO. The Water Entities and EPA are working to coordinate their settlement discussions under the special master in order to arrive at a complete resolution of all issues affecting the federal lawsuit and the UAO. Registrant is presently unable to predict the outcome of these settlement discussions or of the lawsuit, in the event it is not settled.

Santa Maria Groundwater Basin Adjudication

In 1997, the Santa Maria Valley Water Conservation District (plaintiff) filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors. The plaintiff s lawsuit seeks an adjudication of the Santa Maria Groundwater Basin. A settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved, would preserve GSWC s historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin. There are also a few nonsettling parties, and the case is going forward as to these parties. The stipulation, if approved, would preserve GSWC s position with the settling parties independent of the outcome of the case as it moves forward with the nonsettling parties. GSWC cannot predict the outcome of the case as to the nonsettling parties.

As of December 31, 2006, GSWC has incurred costs of approximately $6.4 million in defending its rights in the Santa Maria Basin, including legal and expert witness fees, which have been recorded in Utility Plant for rate recovery. In February 2006, GSWC filed an application with the CPUC for recovery of $5.5 million of these costs, representing the amount of the costs that had been incurred as of December 31, 2005. In February 2007, GSWC reached a settlement with the Division of Ratepayer Advocates authorizing recovery of the $5.5 million requested in GSWC s application. The settlement deferred review of the remaining legal costs pending final resolution of the lawsuit. Management believes that the recovery of these costs through rates is probable.

Other Litigation

An officer of the Company has asserted a potential claim against the Company for retaliation against the officer and others in connection with alleged discriminatory conduct by the Company and its Board of Directors. Although management believes that the allegations are without merit and intends to vigorously defend against them, the Company retained an independent investigator to review the allegations and investigate the facts. Based upon the results of such investigation, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on its financial position, results of operations, or cash flows.

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. The CPUC s investigation focuses on whether these charges were approved in customer rates and whether they were just and reasonable. GSWC is cooperating with the CPUC s investigation and is in the process of producing copies of the documents requested by the CPUC. Management cannot predict the outcome of the investigation at this time.

Registrant is also subject to ordinary routine litigation incidental to its business. Other than those disclosed above, no other legal proceedings are pending, which required disclosure. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers compensation claims incurred in the ordinary course of business.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Performance Graph

The graph below compares American States Water Company s cumulative five-year total shareholder return on Common Shares with the cumulative total returns of the S & P 500 index and a customized peer group of six companies that includes: Artesian Resources Corp., California Water Service, Connecticut Water, Middlesex Water Company, SJW Corp. and Southwest Water Company. The graph tracks the performance of a $100 investment in our Common Shares, in the index and in the peer group (with the reinvestment of all dividends) from December 31, 2001 to December 31, 2006.

	12/01	12/02	12/03	12/04	12/05	12/06
American States Water Company	**100.00**	**102.81**	**115.12**	**124.28**	**152.05**	**195.50**
S & P 500	**100.00**	**77.90**	**100.24**	**111.15**	**116.61**	**135.03**
Peer Group	**100.00**	**94.87**	**116.16**	**140.36**	**152.01**	**182.13**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Market Information Relating to Common Shares

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR. The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years were:

	Stock Prices	
	High	Low
2006		
First Quarter	$ 37.36	$ 30.68
Second Quarter	42.39	33.49
Third Quarter	38.75	35.40
Fourth Quarter	42.10	36.59
2005		
First Quarter	$ 27.63	$ 24.31
Second Quarter	29.89	24.76
Third Quarter	34.14	28.12
Fourth Quarter	34.55	28.65

Approximate Number of Holders of Common Shares

As of March 12, 2007, there were 3,252 holders of record of the 17,058,746 outstanding Common Shares of American States Water Company. AWR owns all of the authorized and outstanding Common Shares of GSWC, CCWC and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

For the last two years, AWR has paid dividends on its Common Shares on March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company:

	2006	2005
First Quarter	$ 0.225	$ 0.225
Second Quarter	$ 0.225	$ 0.225
Third Quarter	$ 0.225	$ 0.225
Fourth Quarter	$ 0.235	$ 0.225
Total	$ 0.910	$ 0.900

AWR s ability to pay dividends is subject to the requirement in the Company s $85 million revolving credit facility for AWR to maintain compliance with all covenants described in footnote (15) to the table in the section entitled *Contractual Obligations, Commitments and Off Balance Sheet Arrangements* included in Part II, Item 7 in Management s Discussion and Analysis of Financial Condition and Results of Operation. GSWC s maximum ability to pay dividends is restricted by certain Note Agreements to the sum of $21 million plus 100% of consolidated net income from certain dates plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock from various dates. Under the most restrictive of the Note Agreements, $213.0 million was available from GSWC to pay dividends to AWR as of December 31, 2006. GSWC is also prohibited under the terms of a senior note issued in October 2005 from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than ..6667 to 1. GSWC would have to issue additional debt of $249.3 million to violate this covenant as of December 31, 2006.

The ability of AWR, ASUS and GSWC to pay dividends is also restricted by California law. Under restrictions of the California tests, approximately $108.6 million of AWR s retained earnings was available to pay dividends to common shareholders at December 31, 2006. Approximately $105.5 million was available from the retained earnings of GSWC at December 31, 2006 to pay dividends to AWR. At December 31, 2006, ASUS was unable to pay dividends to AWR under the California tests.

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC s maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted under Arizona law. Under restrictions of the Arizona tests, approximately $6.7 million was available to pay dividends to AWR at December 31, 2006. See footnote (6) to the table in the section entitled *Contractual Obligations and Other Commitments* included in Part II, Item 7 in Management s Discussion and Analysis of Financial Conditions and Results of Operation.

AWR paid $15.4 million in common dividends to shareholders for the year ended December 31, 2006, as compared to $15.1 million for the year ended December 31, 2005. GSWC paid dividends of $17.2 million and $16.0 million to AWR in 2006 and 2005, respectively. CCWC and ASUS did not pay any dividends to AWR in 2006 or 2005.

Other Information

The shareholders of AWR have approved the material features of all equity compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during 2006.

The following table provides information about Company repurchases of its Common Shares during the fourth quarter of 2006:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (3)
October 1 - 31, 2006	278	(2)	$ 40.76		NA
November 1 - 30, 2006	2	(2)	$ 45.00		NA
December 1 - 31, 2006	52	(2)	$ 38.27		NA
TOTAL	332		$ 40.39		NA

(1) None of the Common Shares were purchased pursuant to any publicly announced stock repurchase program.

(2) All of these Common Shares were acquired on the open market for new participants in the Company s Common Share Purchase and Dividend Reinvestment Plan.

(3) The Company s Common Share Purchase and Dividend Reinvestment Plan does not contain a maximum number of Common Shares that may be purchased in the open market.

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Item 6. Selected Financial Data

(in thousands, except per share amounts)	AWR 2006(2)	2005	2004	2003	2002
Income Statement Information					
Total Operating Revenues	$ 268,629	$ 238,128	$ 229,090	$ 212,779	$ 209,840
Total Operating Expenses	212,023	176,068	179,033	176,074	158,608
Operating Income	56,606	62,060	50,057	36,705	51,232
Interest Expense	21,121	14,657	18,095	18,070	17,699
Interest Income	2,818	1,103	44	9	28
Net Income	23,081	26,766	18,541	11,892	20,339
Basic Earnings per Common Share**(1)**	$ 1.34	$ 1.58	$ 1.19	$ 0.78	$ 1.34
Dividends Declared per Common Share	$ 0.910	$ 0.900	$ 0.888	$ 0.884	$ 0.872
Average Shares Outstanding	16,934	16,778	15,633	15,200	15,144
Average Number of Diluted Shares Outstanding	17,101	16,809	15,663	15,227	15,157
Fully Diluted Earnings per Common Share	$ 1.33	$ 1.57	$ 1.18	$ 0.78	$ 1.34
Balance Sheet Information					
Total Assets	$ 936,955	$ 873,135	$ 810,277	$ 758,818	$ 700,553
Common Shareholders Equity	283,734	264,094	251,465	212,487	213,279
Long-Term Debt	267,833	268,405	228,902	229,799	231,089
Total Capitalization	$ 551,567	$ 532,499	$ 480,367	$ 442,286	$ 444,368
Book Value per Common Share	$ 16.64	$ 15.72	$ 15.01	$ 13.97	$ 14.05

(1) In accordance with Emerging Issues Task Force No. 03-06, *Participating Securities and the Two-Class Method under FASB Statement No. 128* which was effective in the second quarter of 2004, AWR uses the two-class method of computing EPS for the affects of participating securities. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to stock options and stock units that earn dividend equivalents on an equal basis with Common Shares. Registrant determined that the effect on 2004 and 2003 was immaterial. Basic EPS in 2006 and 2005 was computed, utilizing the two-class method, by dividing net income available for common shareholders by the weighted-average number of Common Shares outstanding. Net income available for common shareholders excluding earnings available and allocated to participating securities, was $22,623,000 and $26,468,000 for the years ended December 31, 2006 and 2005, respectively.

(in thousands)	GSWC 2006(2)	2005	2004	2003	2002
Income Statement Information					
Total Operating Revenues	$ 244,425	$ 225,872	$ 220,769	$ 205,600	$ 202,747
Total Operating Expenses	189,123	163,230	167,164	166,415	151,059
Operating Income	55,302	62,642	53,605	39,185	51,688
Interest Expense	19,186	13,288	17,168	17,060	16,636
Interest Income	2,670	1,047	30	9	28
Net Income	$ 23,258	$ 27,828	$ 20,911	$ 13,885	$ 21,220
Balance Sheet Information					
Total Assets	$ 867,661	$ 807,249	$ 756,276	$ 705,563	$ 649,018
Common Shareholder s Equity	266,965	255,518	243,848	206,047	207,562
Long-Term Debt	261,248	261,540	221,697	221,996	222,725

(2) Effective December 31, 2006, Registrant adopted SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* . Because pensions and other postretirement costs have historically been recovered through rates, upon implementing SFAS No. 158, a regulatory asset has been recorded for the costs that would otherwise be charged to common shareholder s equity in accordance with SFAS No. 158. At December 31, 2006, $22.8 million has been recorded as a regulatory asset related to pension and other postretirement costs, with a corresponding increase to pension and postretirement liabilities.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

Unless specifically noted, the following discussion and analysis provides information on AWR s consolidated operations and assets. For the years ended December 31, 2006, 2005 and 2004, there is generally no material difference between the consolidated operations and assets of AWR and the operations and assets of GSWC. However, where necessary, the following discussion and analysis includes references specifically to AWR s other subsidiaries CCWC and ASUS and its subsidiaries.

Overview

Registrant s revenues, income, and cash flows are earned primarily through delivering potable water to homes and businesses. Rates charged to customers of GSWC and CCWC are determined by the CPUC and ACC, respectively. These rates are intended to allow recovery of operating costs and a fair rate of return on capital. Factors recently affecting our financial performance include the process and timing of setting rates charged to customers; our ability to recover, and the process for recovering, the costs of water and electricity in rates; weather; the impact on the cost of operations and expenditures of capital to improve and protect water quality; pressures on water supply caused by population growth, more stringent water quality standards, and watershed and aquifer pollution and contamination from external sources; capital expenditures needed to replace and upgrade water systems infrastructure; and increased costs and risks associated with litigation relating to water quality and water supply, including suits involved by Registrant to protect its water supply.

For 2006, net income was $23.1 million compared to $26.8 million in 2005, a decrease of 13.8%. Diluted earnings per share for 2006 were $1.33 compared to $1.57 in 2005, a decrease of 15.3%. Two principal factors contributed to the decrease in net income: first, there was the favorable CPUC decision on July 21, 2005 regarding the Aerojet matter which added about $4.3 million to net income in July 2005 or approximately $0.25 per share with no similar gain in 2006; and second, due to decreasing energy prices, the pretax unrealized loss on purchased power contracts of $7.1 million decreased net income by $0.24 per share during 2006 in contrast to a pretax unrealized gain of $5.4 million which increased net income by $0.19 per share for the same period of 2005. Offsetting these 2006 decreases was another favorable decision issued by the CPUC in April 2006 regarding GSWC s water rights lease revenues received from the City of Folsom which increased net income by $3.5 million or approximately $0.12 per share, and increased water rates approved by the CPUC and ACC, which contributed approximately $11.1 million to revenues or $0.38 per share. Higher operating expenses in 2006 also impacted earnings as described herein.

Registrant plans to continue to seek additional rate increases in future years to recover operating and supply costs and receive fair returns on invested capital. Capital expenditures in future years are expected to remain at much higher levels than depreciation expense. Cash solely from operations is not expected to be sufficient to fund Registrant s needs for capital expenditures, dividends, investments in the contract business and other cash needs. Registrant expects to fund these needs through a combination of debt and common share offerings throughout the next five years.

Consolidated Results of Operations - Years Ended December 31, 2006 and 2005 (dollars in thousands)

	Year Ended 12/31/2006	Year Ended 12/31/2005	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 219,238	$ 205,506	$ 13,732	6.7 %
Electric	29,268	27,224	2,044	