CALIFORNIA WATER SERVICE GROUP
Form PRE 14A
April 05, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a party other than the Registrant o
Check the appropriate box:

þ Preliminary Proxy Statement

o Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Under Rule 14a-12

California Water Service Group

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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þ No fee required

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(3) Filing Party: __________

(4) Date Filed: __________

California Water Service Group
California Water Service Company, Hawaii Water Service Company,
New Mexico Water Service Company, Washington Water Service
Company, CWS Utility Services, and HWS Utility Services

1720 North First Street
San Jose, CA 95112-4598
(408) 367-8200

April [ ], 2011

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders at 9:30 a.m. on May 24, 2011, at the **Doubletree Hotel San Jose, located at 2050 Gateway Place in San Jose, California**. Please note the offsite location for the Annual Meeting of Stockholders and driving directions at page 42 of our Proxy Statement. Valet parking at the Doubletree Hotel will be provided *free of charge* to our stockholders.

Enclosed are a notice of matters to be voted on at the meeting, our Proxy Statement, a proxy card and our 2010 Annual Report.

Whether or not you plan to attend, your vote is important. Please vote your shares, as soon as possible, in one of three ways: Internet, telephone or mail. Instructions regarding Internet and telephone voting are included on the proxy card. If you choose to vote by mail, please mark, sign and date the proxy card and return it in the enclosed postage-paid envelope.

In a continuing effort to reduce costs and conserve natural resources, we produced a summary annual report again this year, opting not to duplicate the financial information that continues to be provided in our Form 10-K filed with the Securities and Exchange Commission. We care about what you think of the report. Please send your feedback to annualreport@calwater.com.

Thank you for your investment in the California Water Service Group.

Sincerely,

/s/ Robert W. Foy
ROBERT W. FOY
CHAIRMAN OF THE BOARD

2011 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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This Proxy Statement, dated April [ ], 2011, relates to the solicitation of proxies by the Board of Directors of California Water Service Group for use at our 2011 Annual Meeting of Stockholders, which is scheduled to be held on May 24, 2011. We expect to begin mailing this Proxy Statement to stockholders on or about April [ ], 2011.

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CALIFORNIA WATER SERVICE GROUP

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The 2011 Annual Meeting of Stockholders (Annual Meeting) of California Water Service Group (Group) will be held on May 24, 2011, at 9:30 a.m., at the Doubletree Hotel San Jose, 2050 Gateway Place, San Jose, California 95110, for the following purposes:

1. Election of directors;

2. To hold an advisory vote on executive compensation;

3. To hold an advisory vote on the frequency of the advisory vote on executive compensation;

4. To ratify the selection of Deloitte & Touche LLP as the Group s independent registered public accounting firm for 2011;

5. To approve a proposed amendment to the Group s Certificate of Incorporation to eliminate cumulative voting in order to adopt majority voting in uncontested director elections;

6. To approve a proposed amendment to the Group s Certificate of Incorporation to increase the total number of shares of common stock that the Group is authorized to issue in order to effect a stock split; and

7. To consider such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on March 31, 2011, as the record date for the determination of holders of common stock entitled to notice of and to vote at the Annual Meeting.

Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy: (a) by Internet, (b) by telephone, or (c) by USPS mail. You may revoke your proxy at any time prior to the vote at the Annual Meeting. Of course, in lieu of submitting a proxy, you may vote in person at the Annual Meeting; provided, however, that if you hold your shares in street name, you must request a legal proxy from your stockbroker in order to do so. For specific instructions, please refer to Questions and Answers About the Proxy Materials and the Annual Meeting in this Proxy Statement and the instructions on the proxy card.

By Order of the Board of Directors

LYNNE P. MCGHEE, Esq.
Corporate Secretary

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON MAY 24, 2011

Electronic copies of the Group s 10-K, including exhibits, and this Proxy Statement will be available on the Group s website at: http://www.calwatergroup.com.

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

What am I voting on?

Election of ten directors to serve until the 2012 Annual Meeting;

An advisory vote on executive compensation;

An advisory vote on the frequency of an advisory vote on executive compensation;

Ratification of the selection of Deloitte & Touche LLP as the Group s independent registered public accounting firm for 2011;

A proposed amendment to the Group s Certificate of Incorporation to eliminate cumulative voting in order to adopt majority voting in uncontested director elections; and

A proposed amendment to the Group s Certificate of Incorporation to increase the total number of shares of common stock that the Group is authorized to issue in order to effect a stock split.

Those elected to serve as directors of the California Water Service Group, which we refer to in this Proxy Statement as the Group , will also serve as the directors of California Water Service Company and CWS Utility Services, two of the Group s wholly-owned operating subsidiaries.

Who may attend the Annual Meeting?

All stockholders of the Group may attend.

Who is entitled to vote?

Stockholders of record at the close of business on March 31, 2011 (Record Date), or those with a valid proxy from a brokerage firm or another similar organization that held shares on the Record Date.

How many votes do I get?

Each share of common stock is entitled to one vote. You may also use cumulative voting in the election of directors as described below.

What is cumulative voting and how does it work?

You may elect to cumulate your vote in the election of directors. Cumulative voting permits you to allocate among the director nominees the total number of votes you may cumulate.

If you hold common stock, the total number of votes you may cumulate is determined by multiplying the number of shares you hold by the number of director positions to be filled. For example, if you own 100 shares of common stock, you may distribute 1,000 FOR votes (100 shares x 10 director positions to be filled) among as few or as many of the ten director nominees as you choose.

If you wish to cumulate your vote for director nominees, you must follow the special instructions on the proxy card or on the ballot if you attend the Annual Meeting in person. If you do not indicate otherwise, the proxies may use their discretion whether to cumulate votes.

How are the directors elected?

The ten nominees receiving the highest number of votes are elected to the Board.

Who are the Board s nominees?

The nominees are Douglas M. Brown, Robert W. Foy, Edwin A. Guiles, Bonnie G. Hill, Thomas M. Krummel, M.D., Richard P. Magnuson, Linda R. Meier, Peter C. Nelson, Lester A. Snow, and George A. Vera. All the nominees are current Board members. See Proposal No. 1 Election of Directors for biographical information and qualifications, including the nominees current directorships in other publicly held companies.

What are the Board s voting recommendations?

FOR each of the nominees to the Board (Proposal No. 1);

FOR the proposal regarding an advisory vote on executive compensation (Proposal No. 2);

EVERY YEAR for the proposal regarding an advisory vote on the frequency of the advisory vote on executive compensation (Proposal No. 3);

FOR the ratification of the selection of Deloitte & Touche LLP as the Group s independent registered public accounting firm for 2011 (Proposal No. 4);

FOR the proposed amendment to the Group s Certificate of Incorporation to eliminate cumulative voting in order to adopt majority voting in uncontested director elections (Proposal No. 5); and

FOR the proposed amendment to the Group s Certificate of Incorporation to increase the total number of shares of common stock that the Group is authorized to issue in order to effect a stock split (Proposal No. 6).

How do I vote?

You may vote on the Internet.

You do this by following the Vote by Internet instructions on the proxy card. If you vote on the Internet, you do not have to mail in your proxy card.

You may vote by telephone.

You do this by following the Vote by Telephone instructions on the proxy card. If you vote by telephone, you do not have to mail in your proxy card. You must have a Touch-Tone phone to vote by telephone.

You may vote by mail.

You do this by signing the proxy card and mailing it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

You may vote in person at the meeting.

We will hand out written ballots to anyone who wants to vote at the meeting. If you hold your shares in street name, you must request a legal proxy from your stockbroker in order to vote at the meeting.

If you return a signed card but do not provide voting instructions, your shares will be voted:

for the ten named director nominees;

for the advisory vote on executive compensation;

for the advisory vote on executive compensation to occur every year;

for the ratification of the selection of Deloitte & Touche LLP as the Group s independent registered public accounting firm for 2011;

for the proposed amendment to the Group s Certificate of Incorporation to eliminate cumulative voting in order to adopt majority voting in uncontested director elections; and for the proposed amendment to the Group s Certificate of Incorporation to increase the total number of shares of common stock that the Group is authorized to issue in order to effect a stock split.

We have been advised by legal counsel that these telephone and Internet voting procedures comply with Delaware law.

What if I change my mind after I return my proxy?

You may revoke your proxy any time before the polls close at the Annual Meeting. You may do this by:

- signing another proxy with a later date;
- voting on the Internet or by telephone (your latest Internet or telephone proxy is counted);
- voting again at the meeting; or
- notifying the Corporate Secretary, in writing, that you wish to revoke your previous proxy. We must receive your notice prior to the vote at the Annual Meeting.

Will my shares be voted if I do not return my proxy?

If you are a stockholder of record (that is, you hold your shares in your own name), and you do not return your proxy, your shares will not be voted unless you attend the meeting and vote in person. Different rules apply if your stockbroker holds your shares for you. (see below).

What happens if my shares are held by my stockbroker?

If you do not return your proxy, then your stockbroker, under certain circumstances, may vote your shares.

Stockbrokers must write to you asking how you want your shares voted. If you do not respond, stockbrokers have authority under exchange regulations to vote your uninstructed shares on certain routine matters. For non-routine matters, no votes will be cast on your behalf if you do not instruct your stockbroker on how to vote. If you wish to change the voting instructions that you gave to your stockbroker, you must ask your stockbroker how to do so.

If you do not give your stockbroker voting instructions, the stockbroker may either:

- proceed to vote your shares on routine matters and refrain from voting on non-routine matters; or
- leave your shares entirely unvoted.

Shares that your stockbroker does not vote (stockbroker non-votes) will count towards the quorum only. We encourage you to provide your voting instructions to your stockbroker. This ensures that your shares will be voted at the meeting.

You may have granted to your stockbroker discretionary voting authority over your account. If so, your stockbroker may be able to vote your shares even on non-routine matters, depending on the terms of the agreement you have with your stockbroker.

As to my stockbroker voting, which proposals are considered routine or non-routine ?

The ratification of the selection of Deloitte & Touche LLP as the Group s independent registered public accounting firm for 2011 (Proposal No. 4), and the proposed amendment to the Group s Certificate of Incorporation to increase the number of shares of common stock that the Group is authorized to issue in order to effect a stock split (Proposal No. 6) are matters considered routine under applicable rules. A stockbroker may generally vote on routine matters provided that such stockbroker has not received voting instructions from you with respect to such matters.

The election of directors (Proposal No. 1), the advisory vote on executive compensation (Proposal No. 2), the advisory vote on the frequency of the advisory vote on executive compensation (Proposal No. 3), and the proposed amendment to the Group s Certificate of Incorporation to eliminate cumulative voting in order to adopt majority

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voting in uncontested director elections (Proposal No. 5), are matters considered non-routine under applicable rules. A stockbroker cannot vote without your instructions on non-routine matters.

What is the voting requirement to approve each of the proposals?

Proposal	**Vote Required**
Proposal 1 Election of ten directors	Plurality of Votes Cast
Proposal 2 Advisory vote on executive compensation	Majority of Shares Entitled to Vote and Present in Person or Represented by Proxy
Proposal 3 Advisory vote on frequency of advisory vote on executive compensation	Majority of Shares Entitled to Vote and Present in Person or Represented by Proxy
Proposal 4 Ratify the selection of Deloitte & Touche LLP as the Group s independent registered public accounting firm for 2011	Majority of Shares Entitled to Vote and Present in Person or Represented by Proxy
Proposal 5 Amendment to the Group s Certificate of Incorporation to eliminate cumulative voting in order to adopt majority voting in uncontested director elections	Majority of Shares Outstanding
Proposal 6 Amendment to the Group s Certificate of Incorporation to increase the number of shares that the Group is authorized to issue to effect a stock split	Majority of Shares Outstanding

How are broker non-votes and abstentions treated?

Broker non-votes and abstentions are counted for purposes of determining whether a quorum is present. Only FOR and AGAINST votes are counted for purposes of determining the votes received in connection with each proposal, and therefore broker non-votes and abstentions have no effect on the proposal relating to the election of directors. In the case of Proposal No. 2, Proposal No. 3 and Proposal No. 4, broker non-votes and abstentions have no effect on determining whether the affirmative vote constitutes a majority of the shares present or represented by proxy and voting at the Annual Meeting. Approval of these proposals also requires the affirmative vote of a majority of the shares necessary to constitute a quorum, and therefore broker non-votes and abstentions could prevent the approval of these proposals because they do not count as affirmative votes. In the case of Proposal No. 5 and Proposal No. 6, broker non-votes and abstentions have the effect of a vote against the proposal.

Who will count the vote?

Representatives of Broadridge Financial Services, Proxy Services, will serve as the inspector of elections and count the votes.

What does it mean if I get more than one proxy card?

It means that you have multiple accounts at the transfer agent and/or with stockbrokers. Please sign and return all proxy cards to ensure that all your shares are voted.

What constitutes a quorum?

A majority of the outstanding shares present at the Annual Meeting or represented by persons holding valid proxies constitutes a quorum. If you submit a valid proxy card, your shares will be considered in determining whether a quorum is present.

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Without a quorum, no business may be transacted at the Annual Meeting. However, whether or not a quorum exists, a majority of the voting power of those present at the Annual Meeting may adjourn the Annual Meeting to another date, time and place.

At the Record Date, there were 2,447 stockholders of record. There were 20,833,303 shares of our common stock outstanding and entitled to vote at the Annual Meeting.

What percentage of stock do the directors and executive officers own?

Together, they own one percent of our common stock. See Stock Ownership of Management and Certain Beneficial Owners for more details.

Who are the largest common stockholders?

As of December 31, 2010, the largest principal stockholder was Lazard Asset Management LLC which held 1,222,600 shares of common stock, representing 5.87% of our aggregate outstanding stock as of such date. To the best of our knowledge, no other stockholders held over 5% of our common shares as of such date.

What is the deadline for submitting stockholder proposals for the Group s proxy materials for next year s Annual Meeting?

Any proposals that stockholders intend to submit for inclusion in the Group s 2012 proxy materials must be received by the Corporate Secretary of the Group by December 26, 2011. A proposal and any supporting statement together may not exceed 500 words. Please submit the proposal to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4598.

How can a stockholder propose a nominee for the Board or other business for consideration at a stockholders meeting?

Any stockholder of record who is entitled to vote at a stockholders meeting may propose a nominee for the Board or propose other business for consideration at the meeting. The bylaws contain the requirements for doing so. Contact the Corporate Secretary to request a copy of the full bylaw requirements. Briefly, a stockholder must give timely prior notice of the matter to the Group. The notice must be received by the Corporate Secretary at the Group s principal place of business by the 150th day before the first anniversary of the prior year s Annual Meeting. For the 2012 Annual Meeting, to be timely, notice must be received by the Corporate Secretary by December 26, 2011. If we move the date of the meeting by more than thirty days before or more than sixty days after the date of the previous meeting, notice is due by the 150th day before the Annual Meeting or the 10th day after we publicly announce the holding of the meeting. If the Group s Corporate Secretary receives notice of a matter after the applicable deadline, the notice will be considered untimely, and the persons named as proxies may exercise their discretion in voting with respect to the matter when and if it is raised at the meeting.

The bylaws specify what the notice must contain. Stockholders must comply with all requirements of the securities laws with respect to matters submitted in accordance with the bylaws. The bylaws do not affect any stockholder s right to request inclusion of proposals in the Group s Proxy Statement under the rules of the Securities and Exchange Commission (SEC).

How can a stockholder or other interested party contact the independent directors, the director who chairs the Board s executive sessions or the full Board?

Stockholders or other interested parties may address inquiries to any of the Group s directors, to the director who chairs the Board s executive sessions, or to the full Board, by writing to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4598. All such communications are sent directly to the intended recipient.

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Can I make comments and/or ask questions during the Annual Meeting?

Yes, most certainly. Stockholders wishing to address the meeting are welcome to do so by adhering to the following guidelines:

1. Stockholders may address the meeting when recognized by the Chairman or President and Chief Executive Officer (CEO).

2. Each stockholder, when recognized, should stand and identify himself or herself.

3. Stockholder remarks must be limited to matters before the meeting and may not exceed two minutes in duration per speaker. No cameras, video or recording equipment will be permitted at the meeting.

Where and when will I be able to find the results of the voting?

Preliminary results will be announced at the Annual Meeting. We will publish the final results in a current report on Form 8-K to be filed with the SEC within four business days of the Annual Meeting.

BOARD STRUCTURE

This section briefly describes the structure of the Board and the functions of the principal committees of the Board. The Board has adopted Corporate Governance Guidelines that, along with the charters of the Board committees, provide a framework for the governance of the Group. The Corporate Governance Guidelines and the charters for the Audit, Organization and Compensation, Finance and Risk Management, Nominating/Corporate Governance and Executive committees are posted on the Group s website at http://www.calwatergroup.com. Physical copies of these documents are also available upon request to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4598.

The Group s policy is that all directors must be able to devote the required time to carry out director responsibilities and should attend all meetings of the Board and of committees on which they sit.

Leadership Structure

The role of chairman of the Board and the role of chief executive officer are separate pursuant to the Corporate Governance Guidelines. The Corporate Governance Guidelines also provide for an independent lead director to further strengthen the governance structure. Mr. Douglas A. Brown currently serves as lead director. The lead director presides over executive sessions of the non-management and independent directors and has the authority to call executive sessions. The Board believes that this leadership structure fosters clear accountability, effective decision-making and helps to ensure proper risk oversight for the Group.

Risk Oversight

Under the Corporate Governance Guidelines, the full Board oversees the Group s processes for assessing and managing risk. The Board does not view risk in isolation but considers risk as part of its regular consideration of business decisions and business strategy. The Board exercises its risk oversight function through the Board as a whole and through its committees. Each of the Board committees considers the risks within its areas of responsibility and identified in its charter. The Finance and Risk Management Committee reviews the Group s major risk exposures and the steps management has taken and proposes to take to monitor and control such exposures. The Audit Committee reviews with management risks related to financial reporting and internal controls. At least annually, the Finance and

Risk Management Committee discusses the Group s risk assessment and risk management with the Audit Committee. The Organization and Compensation Committee reviews enterprise risks to ensure that our compensation plans and programs do not encourage management to take unreasonable risks relating to our business. The Nominating/Corporate Governance Committee oversees risks related to matters of corporate governance, including director independence and Board performance.

The Group has an Enterprise Risk Management Committee (ERMC) which reports directly to the Finance and Risk Management Committee. The ERMC is not a committee of the Board. The ERMC is chaired by the Group s chief financial officer (CFO), and four other officers from various functions are members. The ERMC identifies and prioritizes key risks and recommends the implementation of appropriate mitigation measures, as needed. The ERMC meets at least semi-annually and reports regularly to the Finance and Risk Management Committee and the CEO. The ERMC reports to the Audit Committee no less frequently than annually. Further review or reporting on risks is conducted as needed or as requested by the Board or committee.

Committees

AUDIT: Reviews the Group s auditing, accounting, financial reporting and internal audit functions. Also, the Audit Committee is directly responsible for the appointment, compensation and oversight of the independent registered public accounting firm, although stockholders are asked to ratify the Audit Committee s selection that was adopted by the Board. All members are independent as defined in the listing standards of the New York Stock Exchange and meet the additional independence requirements for audit committee members imposed by the Sarbanes-Oxley Act and the rules of the SEC thereunder.

The Board has determined that George A. Vera, chair of the Audit Committee, is an audit committee financial expert and is independent as defined in the rules of the SEC and in the listing standards of the New York Stock Exchange. This means that the Board believes Mr. Vera has:

(i) an understanding of generally accepted accounting principles and financial statements;

(ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Group s financial statements, or experience actively supervising one or more persons engaged in such activities;

(iv) an understanding of internal control over financial reporting; and

(v) an understanding of Audit Committee functions.

Designation of a person as an audit committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933. The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other audit committee member or any other Director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

ORGANIZATION AND COMPENSATION: Reviews the Group s executive and director compensation, employee benefit plans and programs, including their establishment, modification and administration. All members are independent as defined in the listing standards of the New York Stock Exchange. In 2010, the Organization and Compensation Committee took steps to analyze the current risk profile of the Group s executive and broad-based compensation programs. In its evaluation, the Organization and Compensation Committee review took into account the fact that the Group does not provide for cash-based annual incentive compensation and that Group operates in a highly regulated environment and thus maintains strong internal controls, which factors tend to mitigate against undue risk.

For a description of the processes and procedures used by the Organization and Compensation Committee for the consideration and determination of executive and director compensation, see Compensation Discussion & Analysis elsewhere in this Proxy Statement.

FINANCE AND RISK MANAGEMENT: Assists the Board in reviewing the Group s financial policies, risk management strategies and capital structure. All members are independent as defined in the listing standards of the New York Stock Exchange.

NOMINATING/CORPORATE GOVERNANCE: Assists the Board by (i) identifying candidates and nominating individuals qualified to become Board members and (ii) developing and recommending a set of corporate governance principles applicable to the Group. All members are independent as defined in the listing standards of the New York Stock Exchange.

EXECUTIVE: Has limited powers to act on behalf of the Board whenever it is not in session. This committee meets only as needed. The committee consists of a majority of independent directors.

During 2010, there were nine regular meetings of the Board, four meetings of the Audit Committee, three meetings of the Organization and Compensation Committee, two meetings of the Finance and Risk Management Committee, one meeting of the Executive Committee, and two meetings of the Nominating/Corporate Governance Committee. Each of the director-nominees who served on the Board of the Group in 2010 attended at least 94% of all Board and applicable committee meetings. Collectively, they attended an average of 99% of all of the Board and applicable committee meetings.

Independence of Directors

As discussed in the Group s Corporate Governance Guidelines, a substantial majority of the Board is made up of independent directors. Under the listing standards of the New York Stock Exchange, a director is independent if he or she has no material relationship, whether commercial, industrial, banking, consulting, accounting, legal, charitable or familial, with the Group, either directly or indirectly as a partner, stockholder or officer of an entity that has a material relationship with the Group. The Board makes an affirmative determination regarding the independence of each director annually, based on the recommendation of the Nominating/Corporate Governance Committee. The Board has adopted standards to assist it in assessing the independence of directors, which are set forth in the Corporate Governance Guidelines. Under these standards, the Board has determined that a director is not independent if:

the director has a material relationship (including, among others, commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships) with companies that comprise the Group;

the director is, or has been within the last three years, an employee of any company that comprises the Group or an immediate family member is, or has been within the last three years, an executive officer of any company that comprises the Group;

the director or any immediate family member has received personally during any twelve-month period within the past three years more than $120,000 in direct compensation from companies that comprise the Group, other than director or committee fees and pension or other forms of deferred compensation for prior service (compensation received by an immediate family member for service as an employee, other than an executive officer, of the Group is not considered for purposes of this standard);

the director or an immediate family member is a current partner of the Group s internal or external auditor; the director is a current employee of such a firm; the director s immediate family member is a current employee of such a firm who works personally on the Group s audit or the director or an immediate family member was in the last three years a partner or employee of such a firm and personally worked on the Group s audit within that time;

employment of the director or of an immediate family member within the last three years as an executive officer of a company whose Organization and Compensation Committee includes or included at the same time an executive officer of the Group;

being an employee or having an immediate family member who is an executive officer of a customer or vendor or other party that has made payments to or received payments from companies that comprise the Group for property or services in an amount that exceeded the greater of $1 million or 2% of the party s consolidated gross revenues, in any of the past three years; or

the director, or the director s spouse, is an executive officer of a non-profit organization to which the Group makes, or in the past three years has made, payments that, in any single fiscal year, exceeded the greater of $1 million or 2% of the non-profit organization s consolidated gross revenues.

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The Board has determined that none of the following relationships, in itself, is a material relationship that would impair a director s independence:

being a residential customer of any subsidiary of the Group;

being an executive officer or employee, or being otherwise affiliated with, a commercial customer from which the Group s consolidated gross revenues in any of the last three years are or were not more than the greater of (i) 1% of the Group s consolidated gross revenues for the year or (ii) $500,000;

being an executive officer or employee of a supplier or vendor that has or had consolidated gross revenues from the Group in any of the last three years of not more than the lesser of (i) 1% of the Group s consolidated gross revenues for the year or (ii) $500,000;

having a 5% or greater ownership interest or similar financial interest in a supplier or vendor that has or had consolidated gross revenues from the Group in any of the last three years of not more than the lesser of (i) 1% of the Group s consolidated gross revenues for such year or (ii) $500,000; and

being a director of any of the Group s subsidiaries.

Director Qualifications and Diversity

The Group seeks directors having the following specific qualifications:

evidence of leadership in his or her particular field;

broad experience and sound business judgment;

expertise in an area of importance to the Group and its subsidiaries;

the ability to work in a collegial Board environment;

high personal and professional ethics and integrity;

the ability to devote the required time to carry out director responsibilities;

the ability and willingness to contribute special competencies to Board activities, including appointment to Board committees;

freedom from conflicts of interest which would interfere with serving and acting in the best interests of the Group and its stockholders; and

evidence of being a high caliber individual who has achieved a level of prominence in his or her career; for example, a CEO or highest level financial officer of a sizeable organization, a director of a major corporation, a prominent civic or academic leader, etc.

Additionally, Section 2.8 of the Group s bylaws contains requirements that a person must meet to avoid conflicts of interest that would disqualify that person from serving as a director.

Board membership should reflect diversity in its broadest sense. The Group seeks directors who represent a diversity of backgrounds and experiences that will enhance the quality of the Board s deliberations and decisions. The Board, as a whole, should possess a combination of skills, professional experience and backgrounds necessary to oversee the Group s business.

Identification of Director Nominees

The Group identifies new director candidates by director recommendations and by the use of search firms selected by the Nominating/Corporate Governance Committee.

The Group considers nominees of stockholders in the same manner as all other nominees. The Group will consider director nominees recommended by stockholders who adhere to the procedure described under Questions and Answers About the Proxy Materials and the Annual Meeting How can a stockholder propose a nominee for the Board or other business for consideration at a stockholders meeting? elsewhere in this Proxy Statement.

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Executive Sessions of the Board

Under the Group s Corporate Governance Guidelines, the non-management directors meet at least four times each year in executive session without management present, and the independent directors meet in executive session at least once a year. The lead director, Mr. Douglas M. Brown, chairs these sessions. The lead director performs other responsibilities that are described in the Group s Corporate Governance Guidelines.

Retirement Age of Directors

The Group has established a mandatory retirement age for directors. A director must retire no later than the Annual Meeting that follows the date of the director s 75th birthday. An employee director must retire as an employee no later than the Annual Meeting that follows the date of his or her 70th birthday, but may remain on the Board at the discretion of the Board.

Annual Meeting Attendance

All directors are expected to attend each Annual Meeting of the Group s stockholders, unless attendance is prevented by an emergency. All of the Group s directors who were in office at that time attended the Group s 2010 Annual Meeting.

Our directors as of March 31, 2011, are as follows:

Name	Age	Position	Current Term Expires	Director Since
Douglas M. Brown(1)(2)(5)(8)(11)(12)	73	Lead Director	2011	2001
Robert W. Foy(10)	74	Chairman of the Board and Director	2011	1977
Edwin A. Guiles(2)(3)(4)(12)	61	Director	2011	2008
Bonnie G. Hill(3)(5)(7)(12)	69	Director	2011	2003
Thomas M. Krummel, M.D.(4)(5)(12)	59	Director	2011	2010
Richard P. Magnuson(1)(2)(3)(4)(9)(12)	55	Director	2011	1996
Linda R. Meier(1)(2)(3)(5)(12)	70	Director	2011	1994
Peter C. Nelson(1)	63	President, Chief Executive Officer and Director	2011	1996
Lester A. Snow(5)(12)	59	Director	2011	2011
George A. Vera(4)(5)(6)(12)	67	Director	2011	1998

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Organization and Compensation Committee

(4) Member of the Finance and Risk Management Committee

(5) Member of the Nominating/Corporate Governance Committee

(6) Chair of the Audit Committee

(7) Chair of the Organization and Compensation Committee

(8) Chair of the Finance and Risk Management Committee

(9) Chair of the Nominating/Corporate Governance Committee

(10) Chair of the Executive Committee

(11) Chair of the Board s Executive Sessions

(12) Independent director

PROPOSAL NO. 1 ELECTION OF DIRECTORS

Upon the recommendation of the Nominating/Corporate Governance Committee, the Board has nominated for election at the 2011 Annual Meeting of Stockholders a slate of ten nominees. Except for our newest directors, Thomas M. Krummel, M.D. and Lester A. Snow, all of the nominees have served as directors since the last Annual Meeting. Dr. Krummel fills the director position formerly held by Edward D. Harris, Jr., M.D., who passed away in 2010. Mr. Snow fills a new director position. All directors are elected annually to serve until the next Annual Meeting or until their respective successors are elected.

Nominee Qualifications

When an incumbent director is up for re-election, the Nominating/Corporate Governance Committee reviews the performance, skills and characteristics of such incumbent director before making a determination to recommend that the Board nominate him or her for re-election. The Board s membership criteria, which are set forth in the Corporate Governance Guidelines, include leadership in a particular field, broad experience and sound business judgment, expertise in areas of importance to the Group, ability to work in a collegial board environment, the highest personal and professional ethics and integrity, ability to devote required time to carrying out director responsibilities, ability and willingness to contribute special competencies to Board and committee activities, freedom from conflicts of interest that would interfere with serving and acting in the best interests of the Group and its stockholders, and achievement of prominence in a career.

The Nominating/Corporate Governance Committee believes that all of the ten director nominees listed below are highly qualified and have the skills and experience required for membership on our Board. A description of the specific experience, qualifications, attributes and skills that led our Board to conclude that each of the nominees should serve as a director follows the biographical information of each nominee below.

Vote Required

The ten persons receiving the highest number of votes represented by outstanding shares present or represented by proxy and entitled to vote will be elected. Except as otherwise indicated, each person has served for at least five years in the position stated below.

Recommendation of the Board

Our Board of Directors unanimously recommends that you vote FOR the election of each of the following nominees:

Douglas M. Brown
Director since 2001
Age 73

Mr. Brown is lead director and a resident of the State of New Mexico. He is the dean of the University of New Mexico s Anderson School of Management. He is the former Treasurer for the State of New Mexico. From 1999 to 2005, he was president and CEO of Tuition Plan Consortium and from 1990 to 1999, he was president and CEO of Talbot Financial Services. He is also a former trustee of Stanford University and former regent of the University of New Mexico. Previously, he spent 28 years in commercial banking, most of it with Wells Fargo Bank.

With his diverse professional background, Mr. Brown brings to the Board economic and public policy expertise as well as financial acumen. He is a former CEO of a publicly traded company and has demonstrated leadership capabilities that position him well to serve as lead director. In addition, Mr. Brown brings valuable insight to the Board from the perspective of the Group s subsidiary operations in New Mexico.

Robert W. Foy
Director since 1977
Age 74

Mr. Foy is Chairman of the Board of California Water Service Group and its subsidiaries. Mr. Foy retired as an executive officer and employee director at the 2007 Annual Meeting in accordance with the Group s retirement policy. See Board Structure Retirement Age of Directors. He was formerly president and CEO of Pacific Storage Company, a diversified transportation, warehousing and business records management company with offices throughout Northern California; he remains an owner and director of that company. He has served as Chairman of the California Water Service Group since January 1, 1996. He serves as a member of the San Jose State University College of Business Global Leadership Council.

With his many years of leadership experience, both at the Group and at Pacific Storage Company, Mr. Foy brings to the Board demonstrated management ability at a senior level. Mr. Foy s full understanding of the Group s business and its history, combined with his drive for excellence, position him well to serve as chairman. Mr. Foy is also active in numerous civic activities in Stockton, a city served by the Group s subsidiary, California Water Service Company.

Edwin A. Guiles
Director since March, 2008
Age 61

Mr. Guiles is a director of Cubic Corporation. He was formerly executive vice-president of corporate development at Sempra Energy. He was previously chairman and CEO of San Diego Gas & Electric (SDG&E) and Southern California Gas Company (SoCal Gas), Sempra Energy s California regulated utilities. Mr. Guiles is also a director and past chairman of the California Chamber of Commerce.

Mr. Guiles is a former CEO with a strong public utility background. He has corporate governance experience through his service on the boards of SDG&E, SoCal Gas and Cubic Corporation, a public company. He brings to the Board valuable senior management and operational expertise from his years at Sempra Energy, SDG&E and SoCal Gas. Additionally, Mr. Guiles in-depth knowledge of public utility regulation provides the Board with crucial insight.

Bonnie G. Hill
Director since 2003
Age 69

Ms. Hill is the president of B. Hill Enterprises, LLC, a consulting firm specializing in corporate governance and board organization. She is also co-founder of Icon Blue, a brand marketing company. From 1997 to 2001, she was president and CEO of Times Mirror Foundation and senior vice president, communications and public affairs, of The Los Angeles Times. She is a director of AK Steel Holdings Corp., Home Depot, Inc. and Yum Brands, Inc. She was formerly a director of Hershey Foods Corporation. She is a director of the Financial Industry Regulatory Authority Investor Education Foundation, a member of the Investors Advisory Group of the Public Company Accounting Oversight Board, and trustee of the RAND Corporation.

Through her experience as a former chair of the SEC s Consumer Affairs Advisory Committee, and as a former director of the National Association of Securities Dealers Regulation Board, Ms. Hill brings to the Board significant public policy, regulatory and governance expertise. Her business experience as well as her service on the boards of a variety of public companies over the past 20 years demonstrates her extensive knowledge of the complex financial and operational issues that public companies face.

Thomas M. Krummel, M.D.
Director since July, 2010
Age 59

Dr. Krummel is the Susan B. Ford Surgeon-in-Chief at the Lucile Packard Children s Hospital and the Emile Holman Professor and Chair of the Department of Surgery at Stanford University School of Medicine. A leader in his field, he has been honored with the Henry J. Kaiser Family Foundation Award for Excellence in Clinical Teaching; the John Austin Collins, M.D. Memorial Award for Outstanding Teaching and Dedication to Resident Training; and the Lucile Packard Children s Hospital Recognition of Service Excellence.

Dr. Krummel brings to the Board experience with professional training and development as well as a familiarity with medical, public health, and science issues. He offers the Board unique insight on public health matters, including healthcare policy and legislation, drinking water quality, and employee health.

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Richard P. Magnuson
Director since 1996
Age 55

Mr. Magnuson is a private venture capitalist. Mr. Magnuson holds a law degree and a master s degree in business administration from Stanford University. From 1984 to 1996, he was a general partner of Menlo Ventures, a venture capital firm. He has served on the boards of the following public companies: Rogue Wave Software (acquired by Quovadx), IKOS Systems, Inc. (acquired by Mentor Graphics) and OrCAD, Inc. (acquired by Cadence Design Systems). He is currently a director of one privately held company and has also served on the boards of several other privately held companies in the past.

With his legal and venture capital backgrounds, Mr. Magnuson brings valuable financial and business strategy expertise to the Board. His past experience on the boards of other public companies, and his insight on financial and operational matters, adds value to the Board. His past and current board service also provides insight on corporate governance practices.

Linda R. Meier
Director since 1994
Age 70

Ms. Meier is a member of the National Board of the Institute of International Education and the Board of Trustees of the World Affairs Council of Northern California. She is co-chair of the The Stanford Challenge and chair of outreach programs. She is a former director of Greater Bay Bancorp and chaired its Marketing Committee. Previously, she was a founding board member of the University National Bank and Trust Company. From 1992-1997, Ms. Meier was chair of the Stanford University Hospital Board of Directors where she chaired the Compensation Committee. From 1984-1994, she was a trustee of Stanford University and vice-president from 1991-1994.

Ms. Meier has demonstrated management capabilities and knowledge of operational issues facing large organizations. Her years of philanthropic and non-profit experience provide an important perspective to the Board and a valuable link to our community. Her past experience on the boards of other public companies, including her chairmanship of marketing and compensation committees, adds value to the Board as well.

Peter C. Nelson
Director since 1996
Age 63

Mr. Nelson is president and CEO of the Group and its subsidiaries. Before joining the Group in 1996, he was vice president, division operations (1994-1995) and region vice president (1989-1994) of Pacific Gas & Electric Company (PG&E). He is a director of the California Chamber of Commerce, chair of the Chamber s Water Resources Committee and a past president of the National Association of Water Companies (NAWC).

Mr. Nelson is well positioned to lead our management team and provide guidance and insight to the Board. Mr. Nelson has a strong record of operational and strategic leadership in the public utility business. An engineer by training with a graduate degree in business administration, he gained extensive senior executive experience at PG&E. He has a vast understanding of the water industry from his fourteen-plus years of experience as president and CEO of the Group and from his leadership roles representing the water profession nationally at NAWC as well as in California at the state chamber.

Lester A. Snow

Director since March, 2011
Age 59

Mr. Snow has served as Secretary of the California Natural Resources Agency, Director of the California Department of Water Resources, Regional Director of the U.S. Bureau of Reclamation, Executive Director of the CALFED Bay-Delta Program, and General Manager of the San Diego County Water Authority. He currently is a staff member of the Resources Law Group which operates in coordination with the Resources Legacy Fund and

Foundation. He holds a Master of Science degree in Water Resources Administration from the University of Arizona and a Bachelor of Science degree in Earth Sciences from Pennsylvania State University.

Mr. Snow brings more than thirty years of water and natural resource management experience to the Board. His distinguished public service career enables him to assist the Board in addressing water and environmental issues as well as regulatory and public policy matters. Additionally, his executive experience in the public sector provides the Board with critical insight on a variety of operational and financial matters.

George A. Vera
Director since 1998
Age 67

Mr. Vera is vice president and chief financial officer of the David and Lucile Packard Foundation. Until 1997, he was an audit partner at Arthur Andersen, LLP.

Mr. Vera is an experienced financial leader with the skills necessary to chair our Audit Committee. He brings many years of accounting experience as a former audit partner that is critical to the Board. His current position with the David and Lucille Packard Foundation provides him with extensive knowledge in dealing with financial and accounting matters.

STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

Ownership of Directors and Executive Officers

The Board of Directors strongly encourages stock ownership by directors. Pursuant to the Group s Corporate Governance Guidelines, available on the Group s website at http://www.calwatergroup.com, beneficial ownership of an aggregate amount of shares having a value of four times the amount of the annual director retainer is strongly encouraged.

The following table shows the common stock ownership of our directors and officers as of March 31, 2011. All directors and executive officers have sole voting and investment power over their shares (or share such powers with their spouses).

Name	Common Stock Beneficially Owned(*)
Douglas M. Brown Director	8,796
Paul G. Ekstrom Executive Officer	17,193
Francis S. Ferraro Executive Officer	18,017
Robert W. Foy Director	35,686
Edwin A. Guiles Director	5,270
Robert R. Guzzetta Executive Officer	20,566
Edward D. Harris, Jr., M.D. Former Director	0(1)
Bonnie G. Hill Director	5,733
Martin A. Kropelnicki Executive Officer	16,900
Thomas M. Krummel, M.D. Director	2,154
Richard P. Magnuson Director	26,181
Linda R. Meier Director	9,384
Peter C. Nelson Director and Executive Officer	91,775
Lester A. Snow Director	1,219
George A. Vera	9,665

Director	
All directors and executive officers as a group	268,539

* To the knowledge of the Group, as of March 31, 2011, all directors and executive officers together beneficially owned an aggregate of approximately 1% of the Group s outstanding common shares. No one director or officer beneficially owns more than 1% of the Group s outstanding common shares.

(1) Dr. Edward D. Harris, Jr. passed away on May 21, 2010. As a result, he had zero shares of common stock as of December 31, 2010.

Ownership of Largest Principal Stockholders

As of March 31, 2011, the Group s records and other information available from outside sources indicated that the following stockholder was the beneficial owner of more than five percent of the outstanding shares of our common stock.

The information below is as reported in filings made by third parties with the SEC. Based solely on the review of our stockholder records and public filings made by the third parties with the SEC, the Group is not aware of any other beneficial owners of more than five percent of the common stock.

Class	Beneficial Owner(1)	Number of Shares of Common Stock	Percent of Class
Common	Lazard Asset Management LLC 30 Rockefeller Plaza New York, NY 10112-6300	1,222,600	5.87%

(1) Lazard Asset Management LLC has sole voting power over 1,150,700 shares and investment power over 1,222,600 shares as of December 31, 2010 as filed on SEC Form 13G.

The information above is as reported in filings made by third parties with the SEC. Based solely on the review of our stockholder records and public filings made by the third parties with the SEC, the Group is not aware of any other beneficial owners of more than five percent of the common stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, requires our directors, certain officers, and holders of more than 10% of our common stock to file with the SEC reports regarding their ownership of our securities.

Based solely on its review of the copies of forms furnished to the Group, or written representations that no annual forms (SEC Form 5) were required, the Group believes that during the fiscal year ended December 31, 2010, our directors, executive officers and holders of more than 10% of our common stock complied with all applicable SEC Section 16(a) filing requirements.

COMPENSATION DISCUSSION AND ANALYSIS

The Organization and Compensation Committee (Committee) administers the Group s compensation plans and programs for board members and executive officers. After a review of compensation levels, the Committee recommends to the full Board of Directors compensation levels, including the equity incentive plan awards for board members and executive officers for the 12-month period beginning January 1st of each year. The Committee starts its planning and review process in September of each preceding year and typically concludes its process in November. The Group s principal executive officer, principal financial officer, and three other most highly compensated executive officers in a particular year are referred to herein as executive officers or executives. More information on the committee and related charter can be found at the Group s website at http://www.calwatergroup.com in the corporate governance section.

Compensation Philosophy for Executive Officers

The Group s overall philosophy is to provide compensation that attracts, retains, and motivates talented executives, rewards excellent job performance and overall leadership, and provides for fair, reasonable, and competitive total compensation. The Committee believes that compensating executives using these criteria is a benefit to both stockholders and customers.

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Best Practices

The Committee believes that the following compensation practices demonstrate the Committee s commitment to good corporate governance with respect to executive compensation:

No Employment Agreements: None of the executive officers are party to individual employment or severance agreements other than change in control benefit described below.

No Single Trigger Change in Control Benefits: The Group does not provide for single trigger change in control benefits. The Group s Executive Severance Plan provides for change in control severance benefits only upon a termination of employment following a change in control. In addition, the Group s equity incentive plan provides for the option of additional vesting of equity awards in the event of a termination of employment following a change in control though neither the Stock Appreciation Rights (SARs) nor the Restricted Stock Award (RSA) grants to date have included this option.

No Tax Gross-Ups on Perquisites: None of the executive officers are entitled to tax gross-ups for perquisites or other personal benefits.

Limited Perquisites: As detailed below, the Group provides the executive officers with only limited perquisites.

Elements of Compensation

The material elements of the Group s executive compensation program include:

Salary;

Equity Compensation;

Basic and Supplemental Pension Plan Benefits;

Deferred Compensation Plan Benefits; and

Limited Perquisites.

Historically, the Group has not used annual bonuses as a compensation mechanism and did not use annual bonuses for the 2010 fiscal year. The Committee is mindful that as a holding company for a California regulated utility, the Group s financial performance is substantially dependent upon the California Public Utilities Commission (CPUC) plus other factors, which to a large extent are beyond the control of the executives. Therefore, the Committee s decisions regarding overall compensation are determined largely by evaluation of factors that are within the executives control and its comparisons with peer groups.

Salary

The Group provides a significant portion of executive officers total compensation in the form of base salaries. Base salaries provide executive officers compensation for performance of primary roles and responsibilities. The Committee reviews base salaries for executive officers annually and determines whether or not to recommend adjustments. To assist the Committee in this review, the Group s CEO provides an assessment of performance and makes recommendations regarding base salary adjustments to the Committee for each of the executive officers other than himself based on the competitive data and the other factors described below under Determining Executive Compensation.

As noted below under Determining Executive Compensation, the Committee targets base salaries for each executive that are within the competitive range (defined as plus or minus 20% from the median compensation level) for the executive s position as established by reference to the competitive data described below. As noted above, the Group does not pay annual cash incentive compensation. However, because annual incentives are a common component of executive compensation in the surveys included in the competitive data, the Group compares base salary levels for the executives to the actual total cash compensation (base salary plus actual bonus) for similar positions within the competitive data (rather than comparing the executive s base salaries to the base salaries within the competitive data). Each of the executives base salaries for 2010 were within the competitive range of actual total cash compensation, except Mr. Ferraro whose base salary was slightly above the competitive range for his position because of his long tenure with the Group, his unique expertise and continued contributions in regulatory matters, and his corporate development responsibilities, each of which is greater than those usually afforded to executives in his position with other public utilities.

Each year Officers of the Group establish a number of corporate goals and objectives for the Group. The compensation of the CEO and the named executive officers is based on progress against certain of these key corporate goals by the Group. For 2010 the following corporate goals of the Group were used to evaluate 2011 compensation for the CEO and the named executive officers:

1. ***Group Operating Results*** Achieve planned operating results as defined in the 2010 Corporate Goals and Objectives. In particular, manage the expense budgets of administration and general, other operations, and maintenance expenses (all considered controllable expenses) within budget.

Achieved Results for Group Operating Results During 2010, the executive team achieved its goal of maintaining operations while keeping controllable costs within budget. The following shows 2010 budget to 2010 recorded actuals:

	2010 Budget	2010 Actual
Admin & General Expense:	$ 77.9 million	$ 75.3 million
Other Operations Expense:	$ 56.1 million	$ 56.5 million
Maintenance Expense:	$ 19.8 million	$ 19.7 million

2. ***Stockholder Value*** The following major objectives were set for 2010:

- Achieve budgeted earnings per share
- Implement new Procure to Pay system:
  - Complete phase two of the redesign phase for the procurement process
  - Complete and go live with the expense reporting module
- Complete the implementation of the new budgeting software. Prepare the 2011 operating budgets in the new system

Achieved Results for Stockholder Value For 2010 the Group achieved the following results for the major objectives in this category:

- Earnings per share of $1.81, or 91% of target
- Implement new Procure to Pay system:
  - Completed phase two of the redesign phase for procurement
  - Completed and successfully rolled the expense module

Completed implementation of the company s new budget system and the 2011 operating budgets were prepared utilizing the new system

The committee gave consideration to factors that affected the Group s operating results which are described in the Group s annual report on Form 10-K.

3. ***Regulation*** Achieve a favorable outcome on the 2009 General Rate Case including enhanced rate recovery mechanisms for capital and expense related items in California.

Achieved Results for Regulation During 2010, Group received a favorable outcome on its 2009 General Rate Case for its regulated California operations, consolidating the California operations into one rate case proceeding. Starting January 1, 2011, the California regulated utility received $25.8 million of annual rate relief, as well as a pension balancing account, medical memorandum account, and an additional $8.0 million of annual rate relief to become effective upon completion of certain capital projects.

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4. ***Capital Program Management*** Improve the capital program planning, budgeting, and project management process. Achieve the 2010 capital budget target and place $130 million of capital in service.

Achieved Results for the Capital Program Management During 2010, the Group closed and put into service $125 million of new capital versus a target of $130 million. Of this amount, $113 million was funded by the Group and $12 million was funded by developer contributions.

5. ***Excellent Customer Service*** Provide every customer with excellent customer service and support. Continue to invest in technology that improves the efficiency of operations and enhance service delivery.

Achieved Results for Excellent Customer Service During 2010, the Group met the goals for customer service, including the following key initiatives:

- Consolidated the various Hawaii billing operations to one system;
- Converted New Mexico Water Service Company s billing to the Group s enterprise billing system;
- Implemented mobile technology dispatch for field employees in the Bakersfield and Stockton districts;
- Developed a Customer Emergency Notification System to be implemented in California during the second half of 2011; and
- Developed and implemented customer service training for all general office employees.

Once the Committee s assessment has been completed, the Committee then reviews and discusses the performance of each executive and the competitive data provided by Presidio Pay Advisors (PPA). Once reviewed and agreed upon, the Committee recommends to the full Board of Directors the base salaries for the executive officers (including the CEO). The following table shows the base salaries for each executive for 2009, 2010 and 2011:

Name	**2009 Base Salary**	**2010 Base Salary**	**2011 Base Salary**
Peter C. Nelson	$ 875,000	$ 910,000	$ 965,000
Martin A. Kropelnicki	$ 400,000	$ 425,000	$ 460,000
Francis S. Ferraro	$ 375,000	$ 381,000	$ 396,000
Robert R. Guzzetta	$ 295,000	$ 300,000	$ 318,000
Paul G. Ekstrom	$ 260,000	$ 270,000	$ 292,000

Included in the chart above are the base salary increases for both 2010 and 2011 for senior management approved by the Committee. These increases are intended to compensate the individuals for job performance and overall leadership while being competitive with market data for similar positions.

Equity Compensation

The purpose of the Group s long-term equity incentive compensation program has been to align executive compensation with stockholder interests, to create incentives for executive recruiting and retention, to encourage long-term performance by the Group s executive officers, and to promote stock ownership and therefore alignment with shareholder interests. As with base salaries, the Committee reviews the competitive range of long-term equity compensation and total direct compensation (long-term equity compensation plus base salary and annual bonus) for similar positions within the competitive data in making decisions regarding long-term equity compensation awards for 2010. However, the Committee also believes that, in the interest of fostering the Group s one-team approach, the annual equity incentive awards granted to each of the Group s executive officers (other than the CEO) would be the same for each. The Committee recommended awarding the CEO a greater value of equity awards than the other executive officers because of his substantially greater level of responsibility and ability to influence the Group s operational results. In addition, for both the CEO and the other executives, the grant values for 2010 were increased over the grant values for 2009 as a result of the Committee s review of the competitive data and its desire to bring long-term equity incentive compensation values within the competitive range for similar positions.

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Each year the Committee establishes the total value of the equity compensation awards to be granted to the CEO and the other executive officers. For 2010 these values were $315,000 and $75,000, respectively, vesting over four years, in the form of RSAs. For 2010, the Committee decided to change the form of the long-term equity incentive compensation from 50% RSAs and 50% SARs to 100% RSAs after observing that companies similar to the Group tend to experience steady growth in revenue and profit, but do not always see this value growth reflected in its stock price. As such, the Committee determined that SARs, whose value is primarily driven by market volatility, were not ideal for compensating executives who may be increasing the Group s value but whose performance is not reflected in the Group s stock price appreciation. In addition, the Committee observed that the Group records a significant accounting expense each year related to the grants of SARs to the executives; however, few executives have actually gained any economic benefits from those awards.

In November of 2009, the Committee, after reviewing competitive data for each executive, approved the total value of the equity compensation awards to be granted to the CEO and the other executives for 2010. These values were $315,000 (CEO) and $75,000 (other executive officers). The Committee granted the following equity awards to the executive officers on March 2, 2010 following the release of annual financial results: (i) the CEO, RSAs covering 8,676 shares; and (ii) each of the executive officers other than the CEO, RSAs covering 2,066 shares. These share numbers were determined by dividing the approximate aggregate value allocated to each executive officer in November 2009 by the average closing price of the Company s common stock from the previous 20 trading days prior to the close on March 2, 2010, rounded up the nearest whole share. RSAs, in each case, vest over four years, with 25% of the RSAs vesting on the first anniversary of the grant date and the remaining RSAs vesting in equal monthly installments thereafter. Neither the SARs nor the RSAs provide for automatic vesting acceleration if there is a change in control or in the ownership of the Group.

In November of 2010, the Committee, after reviewing competitive data for each executive, approved the total value of the equity compensation awards to be granted to the CEO and the other executive officers for 2011. These values were $350,000 (CEO) and $80,000 (other executive officers). On March 1, 2011, the Committee granted to the CEO 9,749 shares; and each of the executive officers other that the CEO, 2,228 shares in the form of RSAs.

Basic and Supplemental Pension Plan Benefits

In addition to the tax-qualified defined benefit plan that covers virtually all union and non-union employees, Group provides supplemental retirement benefits to executive officers under the Supplemental Executive Retirement Plan (SERP). The SERP is an unfunded, unsecured obligation of the Group and is designed to assist in attracting and retaining key executives while providing a competitive, total compensation program. Since Group does not provide a significant amount of total compensation in the form of equity incentives, SERP benefits provide executive officers with retirement security. Furthermore, the plan is designed, in part, to make up for limitations imposed by the Internal Revenue Code on allocations and benefits that may be paid to executive officers under the Group s tax-qualified plan. Because the tax code restricts benefits under the tax-qualified plan, executives otherwise would not be eligible to receive the retirement benefits that are proportional to the benefits received by our employees that generally are based on compensation.

Deferred Compensation Plan

The Group maintains a deferred compensation plan for its directors, officers, and qualified managers. The plan is intended to promote retention by providing eligible employees, including the executive officers, with a long-term savings opportunity on an income tax-deferred basis.

401(k) Plan

All employees satisfying the eligibility requirements are entitled to participate in our 401(k) plan and receive matching contributions from the Group. Pursuant to the plan, executive officers are entitled to contribute up to the statutory limit set by the Internal Revenue Service and effective January 1, 2010, the Group matches 75% for each dollar contributed up to a maximum company match of six percent of each such executive officer s base salary.

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Limited Perquisites

As part of the Group s automobile policy, the Group s executive officers have the use of a company-owned automobile. The Committee believes that the provision of a company-owned automobile allows the executive officers to work more efficiently because many of the geographic areas served by the Group are most effectively reached by automobile as opposed to other forms of transportation, such as airlines. Any personal mileage incurred by the executive is taxed as additional compensation in accordance with IRS regulations. Other than this automobile benefit, the Committee s general philosophy is not to provide perquisites and other personal benefits of substantial value to the executive officers.

Severance Arrangements

None of the executive officers is a party to an individual employment agreement with the Group that provides for severance benefits. In addition, we do not provide executive officers with single-triggered change in control benefits.

Consistent with the Group s compensation philosophy, the Committee believes that the interests of stockholders are best served if the interests of senior management are aligned with those of the Group s stockholders. To this end, the Group provides change in control severance benefits to executive officers under the Group s Executive Severance Plan to reduce any reluctance of the executive officers to pursue or support potential change in control transactions that would be beneficial to stockholders. Group adopted the plan in 1998, and its purpose is to promote the continued employment and dedication of executives without distraction in the face of a potential change in control transaction. The Executive Severance Plan provides severance pay equal to three times base salary to each of the executive officers if their employment is terminated without good cause or they resign for good reason during the two-year period following a change in control.

In addition to the Executive Severance Plan, each executive officer is covered by the Group s general severance policy stating that each non-union employee of Group whose employment is terminated without cause is entitled to severance pay of either one week s pay after completing two years of service or two weeks pay after completing five or more years of service, provided in each case that at least two weeks notice is given. Under the Group s policies, all executive officers are entitled to a pay-out of six weeks of vacation time upon termination of employment.

Determining Executive Compensation

Each year the Committee reviews, assesses, and recommends to the Board of Directors all compensation for executive officers after determining that the compensation for these individuals is competitive relative to companies of comparable size, complexity, location and business nature (see below for additional discussion of this comparison). In addition, the Committee approves the retention, fees, and termination of any compensation consultant or compensation consulting firm used to assist in the evaluation of director and executive compensation. With respect to 2010 compensation decisions, the Committee retained the services of an independent compensation consultant, Presidio Pay Advisors, for investigation into and advice on compensation for executive officers. The Committee believes that having an independent evaluation of compensation is a valuable tool for the Committee, the Group and stockholders. PPA is not engaged to perform any additional work for the Group.

The Committee retained PPA for a number of purposes, including:

- Constructing and reviewing compensation comparisons from readily available published survey data; and
- Performing a competitive assessment of the Group s compensation programs, practices, and levels for its directors, executive officers and other senior officers.

The Committee made a number of compensation recommendations, including those pertaining to the executive officers that were based on the competitive assessments provided by and through consultation with PPA. The Committee s recommendations were made, however, entirely by the Committee, using its sole discretion.

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Total compensation level for executives is based on one or more of the following factors:

The individual s duties and responsibilities within the Group;

The individual s experience and expertise;

The compensation levels for the individual s peers within the Group;

Compensation levels for similar positions based on a review of published compensation surveys; and

The levels of compensation necessary to recruit, retain, and motivate executives.

In order to determine competitive compensation practices for 2010, the Committee relied, in part, on published compensation data from the following sources:

Saje Consulting Group Investor-Owned Water Utility Compensation and Benefits Survey;

Watson Wyatt Data Services Top Management Compensation Survey and Top Management Compensation Calculator; and

Mercer Human Resources Consulting Executive Compensation Survey

PPA utilized the data from these sources (competitive data) to compile the competitive pay information comparing each officer s compensation to the 25th, 50th, and the 75th percentiles for the executive officer s position. The Committee is not provided the names of the companies in any of the surveys. With respect to compensation decisions for 2010, the Committee did not review proxy data for individual companies in making compensation decisions and instead focused on competitive data from established published surveys.

After consideration of the competitive data, the Committee makes decisions regarding each individual executive s target total compensation opportunities based on Group and individual performance and the need to attract, motivate, and retain an experienced and effective management team. The Committee examined the relationship of each executive s base salary, long-term equity incentives and total compensation (base salary plus long-term equity incentives) to the competitive data at the 25th, 50th and 75th percentiles for the executive s position within the competitive data.

In making compensation recommendations for the 2010 fiscal year for the executive officers, the Committee s general objective was to set total compensation within a competitive range for each executive s position based on the competitive data. The Committee considers the competitive range to mean that compensation levels are within plus or minus 20% of the median compensation levels as determined by reference to the competitive data. Actual compensation decisions for the executive officers were, however, influenced by a variety of additional factors, including considerations of each individual s experience, expertise, performance and leadership, the Group s performance, and internal equity among the executive officers. With respect to 2011 compensation planning, the committee retained the services of Towers Watson as independent compensation consultant.

Tax and Other Compensation Policies

When designing compensation policies and setting compensation levels, the Group considers the potential tax treatment of the compensation, but the primary factor influencing program design is the support of business objectives. The Committee has reviewed the Group s compensation structure in light of Section 162(m) of the Internal

Revenue Code (Section 162(m)), which limits the amount of compensation that the Group may deduct for federal income tax purposes for any year to $1,000,000 for our CEO and each of our three highest compensated officers other than the CEO and CFO. There are certain exceptions to this limit, one of which is for performance-based compensation, as defined under Section 162(m). RSAs granted by the Group do not qualify as performance-based compensation, and thus do count against the $1,000,000 deductibility limit. In 2010, no executive officer s compensation exceeded the limitation set by Section 162(m) except for the CEO, whose compensation was $1,105,682. Except to the extent that the CEO s compensation exceeded $1,000,000, all compensation paid to the non-CEO executive officers in 2010 was tax-deductible.

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Historically, the Committee has not used equity awards as a significant portion of executive compensation. Thus, the Group currently does not have any formal stock ownership guidelines for its executive officers, nor does it require that executive officers own a specific number of shares.

Summary Compensation Table

The table below summarizes the total compensation paid or earned by our CEO, CFO, and the three most highly compensated executive officers of the Group for the fiscal year ended December 31, 2010, 2009 and 2008.

(a)	(b)	(c)	(e)	(f)	(h)	(i)	(j)
Name and Principal Position		Salary	Stock Awards	Option Grants	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total