

**AMERICAN STATES WATER COMPANY**  
**GUIDELINES ON SIGNIFICANT GOVERNANCE ISSUES**

**JANUARY 31, 2017**

## TABLE OF CONTENTS

<b>1. MISSION AND RESPONSIBILITIES OF THE BOARD .....</b>	<b>1</b>
1.1 Mission .....	1
1.2 Oversight Responsibilities.....	1
1.3 Corporate Governance Principles.....	2
<b>2. STRUCTURE OF THE BOARD .....</b>	<b>2</b>
2.1 Size .....	2
2.2 Succession Planning .....	2
2.3 Board Membership Criteria.....	2
2.3.1. Responsibilities of Nominating and Governance Committee .....	2
2.3.2. Selection Criteria .....	2
2.3.3. Diversity of Backgrounds .....	2
2.4 New Director Candidates. ....	3
2.4.1. Nomination Process .....	3
2.4.2. Invitation to Join Board .....	3
2.4.3. New Director Orientation .....	3
2.5 Term of Board Service .....	3
2.5.1. No Term Limits .....	3
2.5.2. Retirement.....	3
2.6 Mix of Inside and Independent Directors .....	3
2.6.1. Independent Director Defined .....	3
2.6.2. Management Directors.....	4
2.7 Directors Who Materially Change Their Job Responsibility .....	4
2.8 Board Compensation .....	4
2.9 Lead Director Concept .....	4
2.10 Other Directorships .....	4
<b>3. BOARD PROCEDURAL MATTERS.....</b>	<b>4</b>
3.1 Selection of Chairperson and Chief Executive Officer .....	4
3.2 Board Meetings. ....	5
3.2.1. Agenda.....	5
3.2.2. Frequency of Meetings .....	5

3.2.3. Executive Sessions of Independent Directors.....	5
3.2.4. Governance Decisions .....	5
3.2.5. Attendance of Non-Directors at Board Meetings .....	5
3.2.6. Conduct of Meetings.....	5
3.2.7. Conflicts of Interest .....	5
3.3 Information Provided to the Board; Communications. ....	6
3.3.1. Pre-Meeting .....	6
3.3.2. Between Meetings .....	6
3.3.3. Communications .....	6
3.4 Counsel and Advisors.....	6
3.5 Expectations of Directors. ....	6
3.5.1. Attendance; Availability .....	6
3.5.2. Review of Materials.....	6
3.5.3. Corporate Opportunities .....	6
3.5.4. Code of Conduct .....	6
3.5.5. Stock Ownership.....	7
3.5.6. Education .....	7
3.6 Board Evaluations; Assessing the Board’s Performance .....	7
<b>4. COMMITTEE MATTERS.....</b>	<b>7</b>
4.1 Number, Titles and Charters of Committees .....	7
4.2 Risk Oversight Responsibilities .....	7
4.3 Board Liaisons.....	7
4.4 Independence of Committees .....	7
4.5 Assignment of Committee Members.....	8
4.6 Chairperson of Committees.....	8
4.7 Frequency and Length of Committee Meetings .....	8
4.8 Committee Agenda.....	8
4.9 Attendance at Committee Meetings .....	8
4.10 Minutes and Reports.....	8
4.11 Term of Committee Service .....	8
<b>5. MANAGEMENT DEVELOPMENT MATTERS; SUCCESSION PLANNING.....</b>	<b>8</b>
5.1 Succession Planning .....	8

<b>6. OTHER MATTERS .....</b>	<b>9</b>
6.1 Policy Against Company Loans .....	9
6.2 Board Access to Management .....	9
6.3 Board Interaction With Third Parties .....	9
6.4 Insurance, Indemnification and Limitation of Liability .....	9
6.5 Confidential Shareholder Voting.....	9
6.6 Amendments of Guidelines .....	9

# AMERICAN STATES WATER COMPANY

## GUIDELINES ON SIGNIFICANT GOVERNANCE ISSUES

These Guidelines are not intended to change or interpret any law or regulation or the Articles of Incorporation or Bylaws of the Company.

### 1. MISSION AND RESPONSIBILITIES OF THE BOARD

**1.1 Mission.** The responsibility of the Company's Board of Directors (the "Board") is to

- Review and regularly monitor the effectiveness of the Company's fundamental operating, financial and other business plans, policies and decisions, including the execution of its strategies and objectives,
- Oversee the critical areas of succession and strategic planning and management of risk, and
- Enhance shareholder value over the long term through legal and ethical means.

**1.2 Oversight Responsibilities.** The Board's oversight function includes, among other things, the following specific responsibilities:

- Selecting and overseeing the Chief Executive Officer of the Company,
- Planning for senior management development and succession,
- Reviewing, understanding and monitoring the implementation of the Company's strategic plans,
- Reviewing and understanding the Company's risk assessment and overseeing the Company's risk management processes,
- Reviewing, understanding and overseeing the Company's annual operating plans and budgets,
- Focusing on the integrity and clarity of the Company's financial statements and financial reporting,
- Advising management on significant issues facing the Company,
- Reviewing and approving significant corporate actions,
- Reviewing management's plans for disaster preparedness, physical and cyber security and emergency communications,
- Nominating directors and Committee members and overseeing effective corporate governance, and
- Overseeing legal and ethical compliance.

**1.3 Corporate Governance Principles.** The Board believes that in fulfilling its responsibilities it should follow the fundamental corporate governance principles described in this document and the charters of its various Committees.

## **2. STRUCTURE OF THE BOARD**

**2.1 Size.** The number of directors shall be not less than six nor more than eleven. The exact number of directors will be determined by the Board based on its current composition and requirements as specified in the Bylaws of the Corporation.

**2.2 Succession Planning.** The Nominating and Governance Committee should conduct a forward-looking assessment to identify the qualifications and attributes that the Board may find valuable in the future based on the Corporation's strategic plans, anticipated director departures and evolving best practices.

**2.3 Board Membership Criteria.**

**2.3.1. Responsibilities of Nominating and Governance Committee.** The Nominating and Governance Committee is responsible for recommending to the Board the types of skills and characteristics required of Board members based on the needs of the Company from time to time and the criteria set forth below. The Nominating and Governance Committee should confer with the full Board as to the specific additional criteria it intends to apply before a search for a new director is commenced.

**2.3.2. Selection Criteria.** The Nominating and Governance Committee will assess nominees for directors on the basis of a number of criteria, including

- A reputation for integrity, honesty and adherence to high ethical standards,
- Holding or having held a generally recognized position of leadership,
- Business acumen, business or governmental experience and an ability to exercise sound business judgment in matters that relate to the Company's current and long-term objectives,
- An interest and ability to understand the sometimes conflicting interests of the Company's various constituencies, including shareholders, employees, customers, regulators, creditors and the general public,
- An interest and ability to act in the interests of all shareholders,
- An ability to work constructively with groups of diverse perspectives and to tolerate opposing viewpoints,
- A commitment to service on the board, including commitment demonstrated by prior board service, and
- A willingness to stimulate management.

**2.3.3 Diversity of Backgrounds.** It is desirable that the Board consist of directors who are able to bring a variety of opinions, perspectives, personal experiences and

backgrounds and other differentiating characteristics, including gender and ethnicity, to the Board. The Nominating and Governance Committee will also consider how the skills and attributes of each individual candidate or incumbent director fits with the skills and attributes of the current members of the Board, with the goal of creating a Board that is collegial, engaged and effective in performing its duties.

## **2.4 New Director Candidates.**

**2.4.1. Nomination Process.** The Nominating and Governance Committee will consider candidates recommended by Board members, professional search firms, shareholders and other persons, in addition to Board members whose terms may be expiring. The manner in which the Nominating and Governance Committee evaluates a new person as a nominee will not differ based on who makes the nomination. The Board will nominate new directors only from candidates screened and approved by the Nominating and Governance Committee.

**2.4.2. Invitation to Join Board.** Any invitation to join the Board should be extended through the Chairperson of the Nominating and Governance Committee after approval by the full Board.

**2.4.3. New Director Orientation.** When a new director joins the Board, management will provide an orientation program to enable the new director promptly to gain an understanding of the operations and the financial condition of the Company.

## **2.5 Term of Board Service**

**2.5.1. No Term Limits.** Term limits for Board membership are not believed to be necessary. However, no director should have an expectation of permanent membership.

**2.5.2. Retirement.** No director will be nominated for reelection or reappointment to the Board after reaching 75 years of age, except in extraordinary circumstances. When an individual ceases to be a Chief Executive Officer, he or she may stand for re-nomination to the Board upon ending his or her term, but the determination to nominate the individual will be at the discretion of the Nominating and Governance Committee, and would generally require that the director's service fulfill an important, unmet objective.

## **2.6 Mix of Inside and Independent Directors.** The Board should be composed predominantly of independent directors.

**2.6.1. Independent Director Defined.** An "independent director" means a person who fully complies with applicable legal and stock exchange requirements for serving as such, as determined by the Board. Each director's status under this definition should be reviewed at least annually by the Nominating and Governance Committee. Each director should keep the Nominating and

Governance Committee fully and promptly informed as to any developments that might affect the director's independence.

- 2.6.2. Management Directors.** The Company's Chief Executive Officer should be a director. Other members of management will be considered for Board membership only under unusual circumstances.
- 2.7 Directors Who Materially Change Their Job Responsibility.** Individual directors who change the job responsibility that they had held when they were elected to the Board (or in the case of current directors, that they presently hold) should provide notice of such change to the Nominating and Governance Committee. Following the receipt of such notice, the Nominating and Governance Committee is responsible for making a recommendation to the Board regarding whether it continues to be appropriate for such director to remain on the Company's Board. It is not the belief of the Board that in every instance directors who retire or change their job responsibilities should necessarily leave the Board.
- 2.8 Board Compensation.** Management should report periodically to the Compensation Committee about the status of Board compensation in relation to compensation paid by other comparable companies. Director fees and benefits should be based on market practices for comparable companies. A portion of each director's compensation should be in the form of Company equity. Changes in Board compensation, if any, should come at the suggestion of the Compensation Committee.
- 2.9 Lead Director Concept.** Currently the Chairperson of the Board is not Chief Executive Officer of the Company. As a result, the Board does not believe that there is presently a need to formally adopt a "lead director" structure where one director is selected to serve as an interface between the Chief Executive Officer and the full Board. If a lead director is designated, such person will be designated by majority vote of the independent directors at the time.
- 2.10 Other Directorships.** Independent directors are encouraged to limit the number of other boards on which they serve, taking into account potential Board attendance and participation and effectiveness on the Board. No director should serve on the board of directors of more than five public companies. Independent directors should also advise the Chairperson of the Board and the Chairperson of the Nominating and Governance Committee in advance of accepting an invitation to serve on another board of a public company. No director should serve on the Audit Committee of more than two other public companies. Executive officers may serve on the board of one other company with the approval of the Chief Executive Officer. Approval of the Nominating and Governance Committee also is required before any executive officer accepts any directorship with another public company.

### **3. BOARD PROCEDURAL MATTERS**

- 3.1 Selection of Chairperson and Chief Executive Officer.** Currently the Chairperson is not Chief Executive Officer. The Board does not have a fixed policy as to whether the role of the Chief Executive Officer and Chairperson should be separate. The Board

should be free to make these choices in any manner that it deems best for the Company at a given point in time.

## **3.2 Board Meetings.**

**3.2.1. Agenda.** The Chairperson of the Board will establish and distribute in advance the agenda for each Board meeting. Any director is free to suggest potential items for the agenda.

**3.2.2. Frequency of Meetings.** The Board expects to have at least four regularly scheduled meetings each year. In addition, special meetings may be called from time to time as determined by the needs of the business. At least annually, the Board will devote time to a review of the Company's long-term strategic and business plans.

**3.2.3. Executive Sessions of Independent Directors.** The independent directors will have the opportunity to meet in executive session at all regularly scheduled Board meetings, and otherwise will meet as needed. Such sessions will be chaired by the Chairperson, or if such director is not independent, the lead director, if any, or, if none, a director selected by the independent directors. That director will also establish an agenda for such meetings.

**3.2.4. Governance Decisions.** On matters of corporate governance, the Board assumes that decisions will be made with the approval of a majority of the independent directors.

**3.2.5. Attendance of Non-Directors at Board Meetings.** Attendance of any non-director at any Board meeting is subject to the discretion of the Board. Subject to that, the Board encourages management to bring officers and managers into Board meetings from time to time, when such managers can provide additional insight into the matters being discussed and/or have potential as future members of senior management. If the Chief Executive Officer wishes to add additional personnel as attendees at Board meetings on a regular basis, Board approval should be sought.

**3.2.6. Conduct of Meetings.** The Chairperson should conduct Board meetings on the assumption that each director has carefully reviewed all Board materials, and fairly facilitate open, candid, and respectful discussions.

**3.2.7. Conflicts of Interest.** Each Board member is required to disclose to the Board any financial interest or personal interest that he or she has in any contract or transaction that is being considered by the Board for approval. After such disclosure and responding to any questions the Board may have, the interested director should, unless otherwise requested by the Board, abstain from voting on the matter and in most cases, should (and at the request of the Chairperson of the meeting will), leave the meeting while the remaining directors discuss and vote on such matter. Each Board member is also required to disclose annually all

relationships between the Board member and the Company during the preceding year, other than as a director of the Company.

### **3.3 Information Provided to the Board; Communications.**

**3.3.1. Pre-Meeting.** Information that is important to the matters that will be discussed at Board meetings should be distributed at least five days in advance of the meeting, if possible, so that Board meeting time can be conserved for substantive discussion.

**3.3.2. Between Meetings.** The Chief Executive Officer should continue to advise the Board candidly of any significant developments between meetings through a suitable method of communication.

**3.3.3. Communications.** Candid, regular discussion between the directors and the Chief Executive Officer, and among directors, is encouraged. The Chief Executive Officer should make full use of the Board's talents to the extent feasible and appropriate by conferring with directors about Company matters within the directors' areas of expertise.

**3.4 Counsel and Advisors.** The Board and each of its Committees may retain outside legal counsel and other advisors at their discretion and at the expense of the Company. The Board and each of its Committees should use care in choosing advisers and take into account any legal requirements that may be applicable to the selection of advisers.

### **3.5 Expectations of Directors.**

**3.5.1. Attendance; Availability.** Each director should make every reasonable effort to attend each meeting of the Board and any Committee of which the director is a member, and to be reasonably available to management and the other directors for consultation between meetings. In particular, directors should attend sufficient meetings to avoid falling below the attendance level that would require disclosure in the Company's annual proxy statement. A director whose participation falls below that threshold for two years will be subject to review by the Nominating and Governance Committee for continued membership on the Board.

**3.5.2. Review of Materials.** Directors should review carefully information distributed to them prior to Board and Committee meetings. If directors have questions either about the materials distributed or Company operations generally that are not likely to be of general interest or relevance to the entire Board, those issues should be discussed by the director with management between Board meetings.

**3.5.3. Corporate Opportunities.** Directors shall make business opportunities relating to the Company's business available to the Company before pursuing the opportunity for the director's own or another's account.

**3.5.4. Code of Conduct.** Each director shall comply with all provisions of the Company's Code of Conduct applicable to directors.

**3.5.5. Stock Ownership.** Each director is expected to comply with the stock ownership guidelines established from time to time by the Board.

**3.5.6. Education.** Each director is expected to take steps reasonably necessary to be adequately informed about the Company and external matters affecting it and to enable the director to function effectively on the Board and Committees on which the director serves. The Nominating and Governance Committee will monitor and make recommendations with respect to the process by which management makes information about the Company and developments in the Company's industry available to the Board.

**3.6 Board Evaluations; Assessing the Board's Performance.** The Board will conduct an annual self-evaluation of the Board and each of its Committees. The Nominating and Governance Committee is responsible for establishing the evaluation criteria and implementing the process for such evaluation. There should be regular, candid discussions between the Chairperson of the Board and the directors, individually, or as a group, about how best to maximize each director's contribution to the Board. The Chairperson of the Nominating and Governance Committee and the Chairperson of the Board should periodically discuss the Board's performance and the contributions made by directors, with a view to making full and productive use of directors' talents and improving the performance of the Board.

#### **4. COMMITTEE MATTERS**

**4.1 Number, Titles and Charters of Committees.** The current standing Board Committees are (a) Audit and Finance, (b) Compensation, (c) Nominating and Governance, and (d) ASUS. The Board from time to time also establishes special committees when it deems it appropriate to do so. This structure meets the Company's present needs. Each standing Committee should review its charter and activities annually, with the assistance of inside or outside counsel and advisers, as appropriate, to make certain that they are consistent with then-current sound governance practices and legal requirements and the present needs of the Company.

**4.2 Risk Oversight Responsibilities.** The Board is responsible for establishing an appropriate structure for overseeing risk, which may involve assistance from one or more standing Committees as the Board deems appropriate.

**4.3 Board Liaisons.** The Board may from time to time appoint a director to act as liaison between the Board and management on particular matters. The Board has currently appointed the Chairperson of the Audit and Finance Committee as liaison between the Board and the Anti-Fraud Committee of the Company and a director as a liaison between the Board and the Enterprise Risk Management Committee of the Company.

**4.4 Independence of Committee Members.** All members of the Audit and Finance, Compensation and Nominating and Governance Committees will be independent directors. The members of the other Committee's need not consist solely of independent directors.

- 4.5 Assignment of Committee Members.** The Nominating and Governance Committee is responsible, after consultation with the Chairperson of the Board and consideration of the desires of individual directors, for the assignment of directors to various Committees. Each independent director is expected to serve at all times on at least one, and preferably two, Committees. Consideration will be given to rotating Committee assignments periodically, but rotation should not be mandated as there may be reasons, at a given point in time, to maintain an individual director's Committee membership.
- 4.6 Chairperson of Committees.** All standing Board Committees shall be chaired by independent directors. Each Committee Chairperson should normally have had previous service on the applicable Committee.
- 4.7 Frequency and Length of Committee Meetings.** Each Committee Chairperson, in consultation with Committee members, will determine the frequency and length of each Committee's meetings.
- 4.8 Committee Agenda.** Each Committee Chairperson, in consultation with the appropriate members of the Committee and management, will develop the Committee's agenda. These agendas will be shared with the Board.
- 4.9 Attendance at Committee Meetings.** Attendance of other non-Committee persons at Committee meetings will be at the pleasure of the Committee. Any Committee meeting shall be open to any member of the Board who wishes to attend, unless the subject matter of the meeting involves the particular director or the Committee determines otherwise. Committees should regularly meet in executive session.
- 4.10 Minutes and Reports.** Minutes of each Committee meeting or action will be kept and made available to the Board. Each Committee will report regularly to the Board on substantive matters considered by the Committee.
- 4.11 Term of Committee Service.** Formal term limits for Committee membership are not necessary. However no Committee member should have an expectation of permanent membership and no Chairperson should have an expectation of permanently being Chairperson.

## **5. MANAGEMENT DEVELOPMENT MATTERS; SUCCESSION PLANNING**

- 5.1 Succession Planning.** There should be an annual report to the Board by the Chief Executive Officer on succession planning and management development, both short-term and long-term. The Nominating and Governance Committee should monitor issues associated with Chief Executive Officer succession. This should include issues associated with preparedness for the possibility of an emergency situation involving senior management, the long-term growth and development of the senior management team, and identifying the Chief Executive Officer's successor.

## 6. OTHER MATTERS

- 6.1 Policy against Company Loans.** Neither the Company nor any of its subsidiaries shall provide loans, loan guarantees, or otherwise directly or indirectly extend credit to any executive officer of the Company, or any director of the Company. Payment or reimbursement for business expenses will not be deemed violation of the foregoing policy.
- 6.2 Board Access to Management.** Directors have complete access to management. Directors will use judgment to be sure that such contacts are not distracting to the business operations of the Company and that, in general, the Chief Executive Officer is made aware of such contacts. The Chairperson of the Board may be designated by the Board to coordinate between management and directors to ensure that the role between Board oversight and operations is respected.
- 6.3 Board Interaction with Third Parties.** Management should coordinate all contacts with outside constituencies, such as the press, customers, investors, analysts or the financial community. If an individual director intends to meet or otherwise substantively communicate with these constituencies about Company matters, this should generally be done only after consulting with the Chief Executive Officer.
- 6.4 Insurance, Indemnification and Limitation of Liability.** The directors shall be entitled to have the Company purchase directors' and officers' liability insurance on their behalf as is reasonable under the circumstances, to the benefits of indemnification to the fullest extent permitted by law and the Company's Articles of Incorporation or Bylaws and any indemnification agreements, and to exculpation as provided by law and the Company's Articles of Incorporation.
- 6.5 Confidential Shareholder Voting.** The Company believes that shareholder votes should generally be confidential.
- 6.6 Amendments of Guidelines.** The Nominating and Governance Committee will review these Guidelines at least annually to ensure that they remain suitable for the needs of the Company. The Nominating and Governance Committee will be responsible for recommending needed changes to the Guidelines.

*[REST OF THE PAGE INTENTIONALLY LEFT BLANK]*

Each of us, as a member of the Board of Directors of American States Water Company, agrees to support these Guidelines on Significant Governance Issues.

James L. Anderson

Sarah J. Anderson

Diana M. Bontá

John R. Fielder

Anne M. Holloway

James F. McNulty

Lloyd E. Ross

Robert J. Sprowls

Janice F. Wilkins