

Investor Presentation



American States
Water Company



March 2017

NYSE: AWR

Forward-Looking Statement

Certain matters discussed in this presentation are forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company “believes,” “anticipates,” “expects” or words of similar import. Similarly, statements that describe the Company’s future plans, objectives, estimates or goals are also forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements.

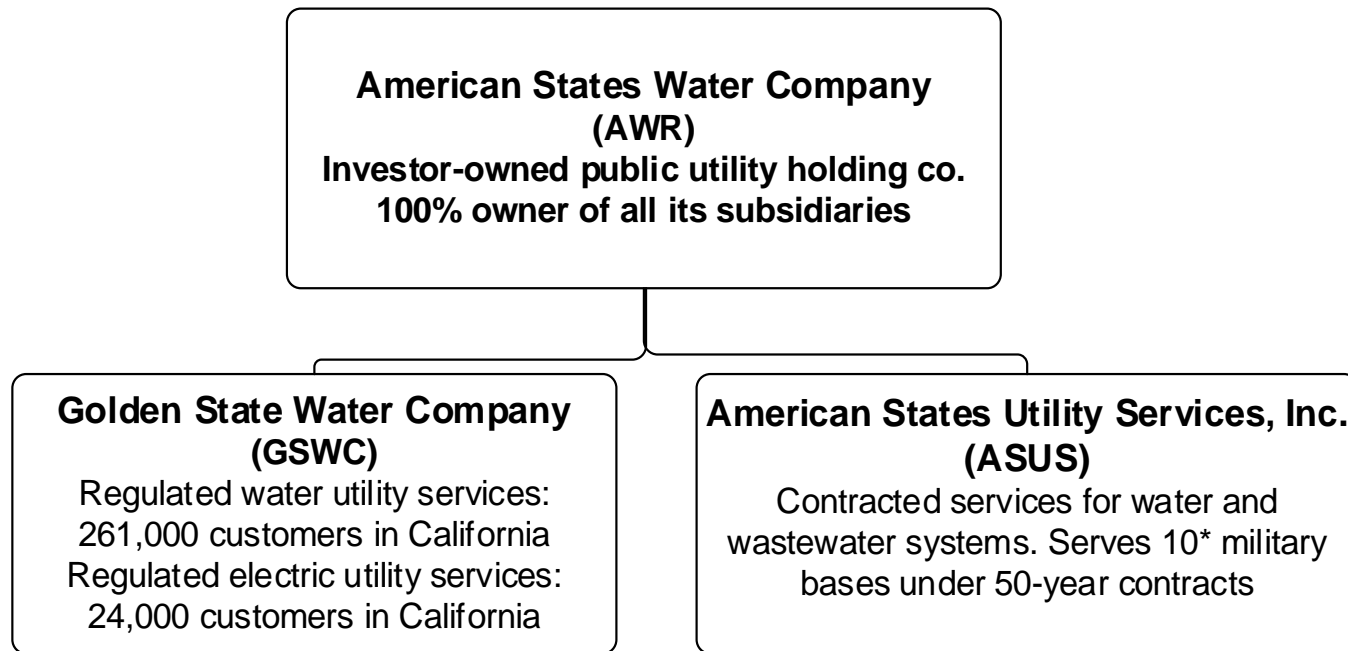
AWR is a low volatility water utility with a secure and growing dividend, operating in a constructive regulatory environment in California, along with a growing unregulated contracted services business serving military bases under 50-year contracts.

- ❑ Listed on the NYSE: “AWR”
- ❑ AWR debt rating → A+ Stable
- ❑ GSWC debt ratings → A+ Stable/A2 Stable
- ❑ As of March 7, 2017:
 - ~36.6 million common shares outstanding
 - Institutional Ownership → 66%
 - 52-week low/high → \$37.28/\$46.39⁽¹⁾
 - Average daily volume → ~125,000 shares (3 months)⁽¹⁾
 - Market capitalization → ~\$1.6 billion⁽¹⁾
 - Dividend yield → 2.2%⁽¹⁾



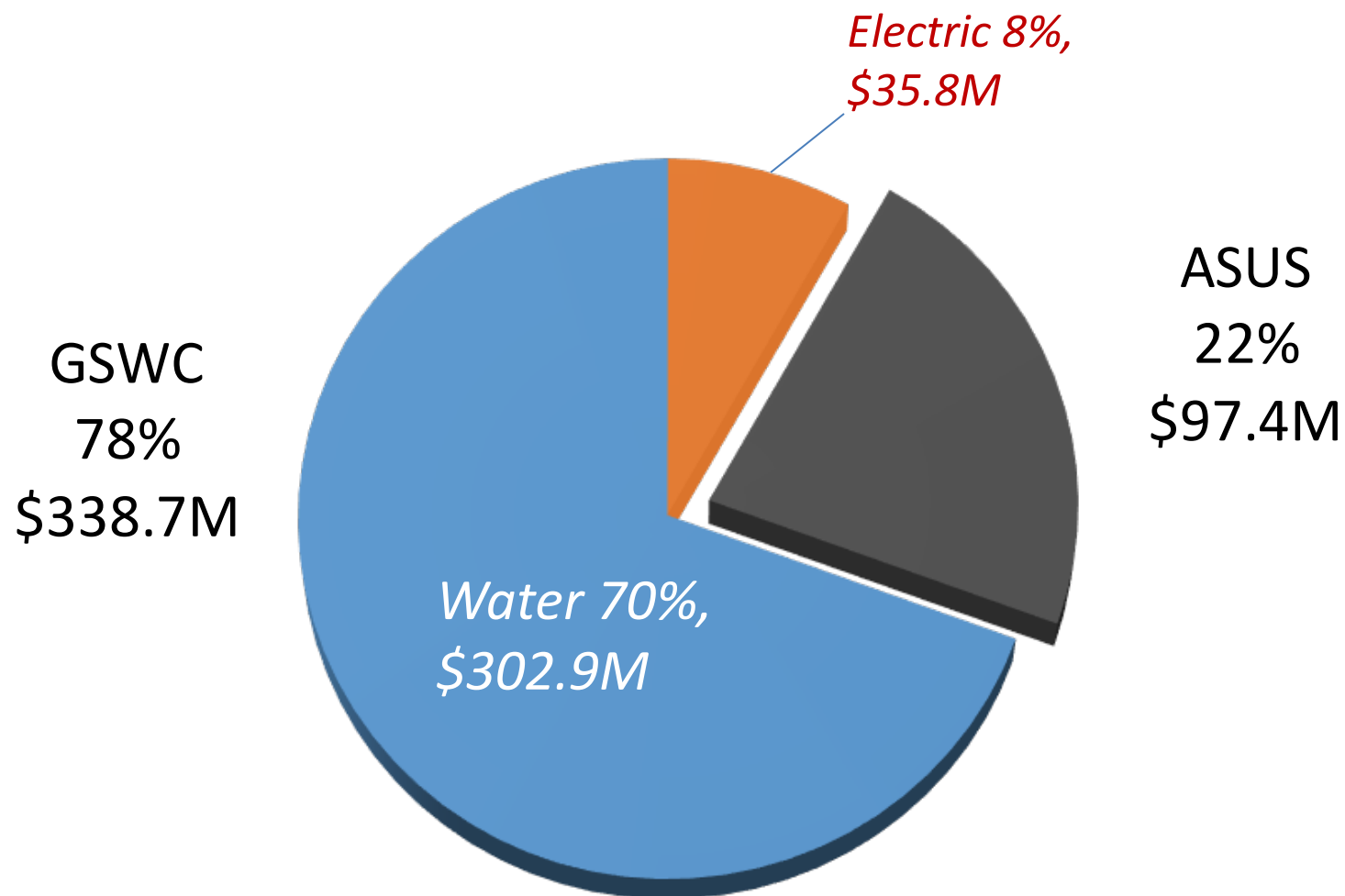
⁽¹⁾ Source: Yahoo! Finance

Company Organizational Structure

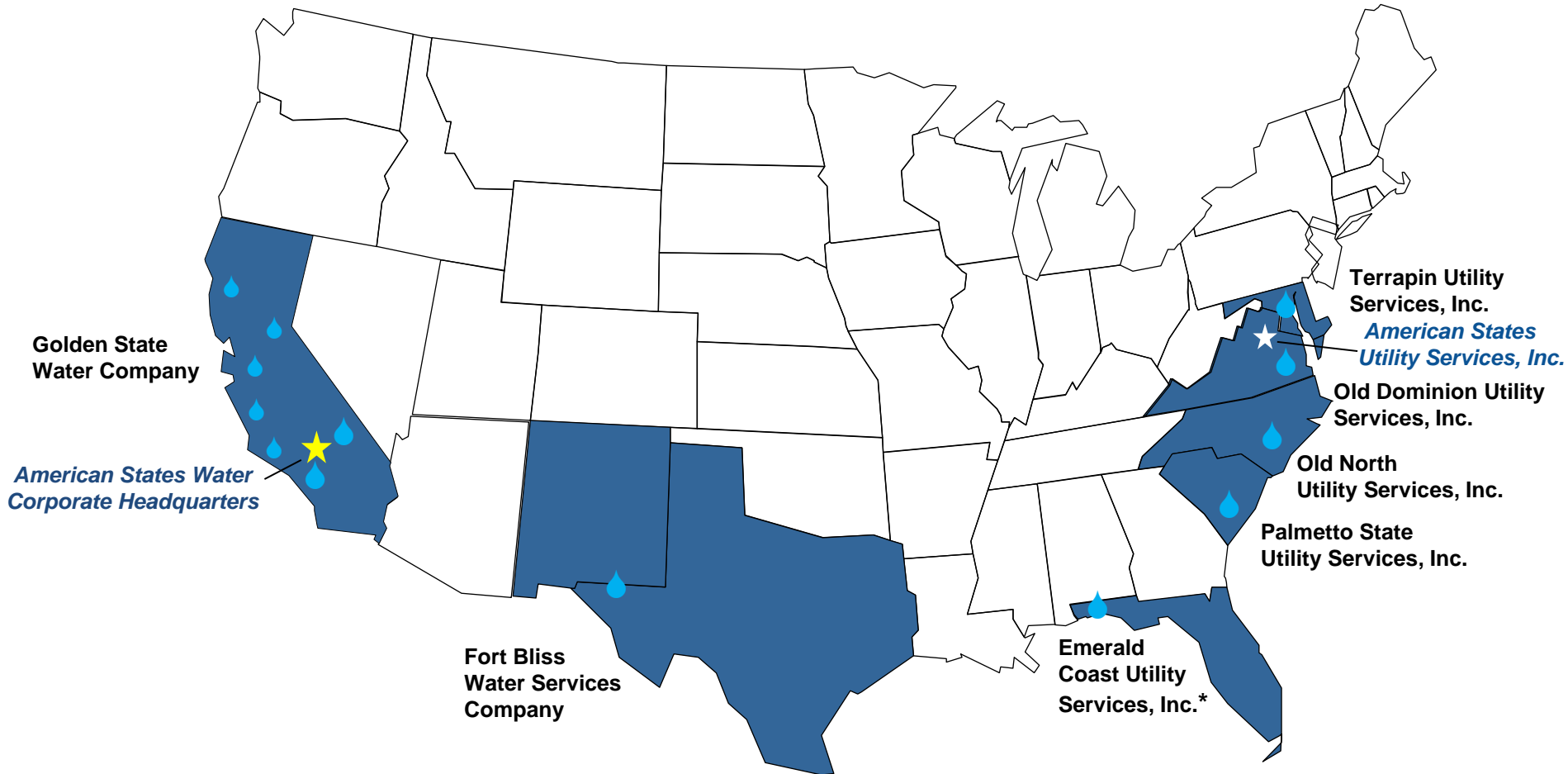


*Includes Eglin AFB which was awarded in July 2016 and is expected to fully transition to ASUS operations by mid-2017

2016 Revenues By Segment



AWR Service Area Map



*Eglin AFB was awarded in July 2016 and is expected to fully transition to ASUS operations by mid-2017

GSWC Service Area Map



Golden State Water Company

- Serves 75 Cities in 10 Counties
- Operates 39 Water Systems
- ~261,000 Water Customers and ~24,000 Electric Customers



☐ **GSWC**, the Company's **regulated utilities**:

- Represented ~78% of AWR revenues and 79% of net income for 2016
- Has a stable customer base, with about 90% of water revenues derived from residential and commercial customers
- Is regulated by the California Public Utilities Commission (CPUC)
 - ✓ **Revenue Requirement includes:**
 - Dollar for dollar recovery of projected operating expenses, plus
 - Rate of return on rate base (including projected CapEx)
 - ✓ **GSWC recovers its capital investment from customers** over the life of the asset through annual depreciation and a return on its undepreciated capital assets

- ❑ **ASUS**, the Company's **contracted services subsidiary** was established in 1998 and is currently led by James C. Cotton, previously with the U.S. Department of Defense for 15 years. ASUS provides the company with:
 - A relatively low risk, growth investment
 - ✓ Allows AWR to capitalize on its competencies in operating water systems and in offering related services
 - Opportunities to improve companywide returns
 - A vehicle to diversify risk
 - ✓ By investing in high-growth states, similar to the way an investment manager diversifies risk by owning several different securities
 - A contributor to funding AWR's dividend to shareholders and covering the cost of being a publicly-traded company

- ❑ **ASUS** operates and maintains the water and wastewater systems at ten military bases in seven states under 50-year privatization contracts with the U.S. government:
 - Fort Bliss in El Paso, Texas (parts in New Mexico)
 - Andrews Air Force Base in Maryland
 - Fort Lee in Virginia (wastewater only)
 - Joint Expeditionary Base Little Creek – Fort Story and Joint Base Langley Eustis in Virginia
 - Fort Jackson in Columbia, South Carolina
 - Fort Bragg, Pope Army Airfield, and Camp Mackall in Fayetteville, North Carolina
 - Eglin Air Force Base in Florida - was awarded in July 2016 and is expected to fully transition to ASUS operations by mid-2017

- ❑ Numerous military bases still to be privatized; active bids are currently in process. Significant water and wastewater contracts to be awarded over the next 5 years.

- ❑ Under each of the 50-year contracts with the U.S. government, ASUS has the following revenue stream:
 - **O&M Revenues** for operating and maintaining the systems
 - ✓ A fixed amount each month included under the 50-year contracts, subject to price redeterminations (“PR”) and economic price adjustments (“EPA”)
 - **Construction Revenues** for:
 - ✓ Renewal and Replacement of existing capital assets included under the 50-year contracts, subject to PRs and EPAs
 - ✓ Other Capital Upgrades are additional projects (including improvements and expansion to the existing water and wastewater infrastructure) that in many cases are outside the scope of the 50-year contracts and are granted through contract modifications
- ❑ Filings for PRs, EPAs, and requests for equitable adjustment provide ASUS with **additional revenues and margin.**

☐ **Strong dividend track record**

- Fourth quarter 2016 dividend increased by 8.0% - **5-year dividend CAGR of 10.7%**
- Increased dividends to shareholders each calendar year for 62 consecutive years
- Have paid dividends to shareholders every year since 1931
- Targeting a 5-year compound annual growth rate of at least 5% over the long term. Given AWR's low payout ratio compared to the companies that we compete with for capital and our earnings growth prospects, there is room to grow the dividend

☐ **Growth potential in earnings**

- 2016 Diluted EPS of \$1.62 per share with a **5 year CAGR of 7.7%**
- Planned CapEx at 3.0 X Depreciation will increase rate base at the regulated utility businesses
- Significant growth prospects for the contracted services business due to new military base opportunities

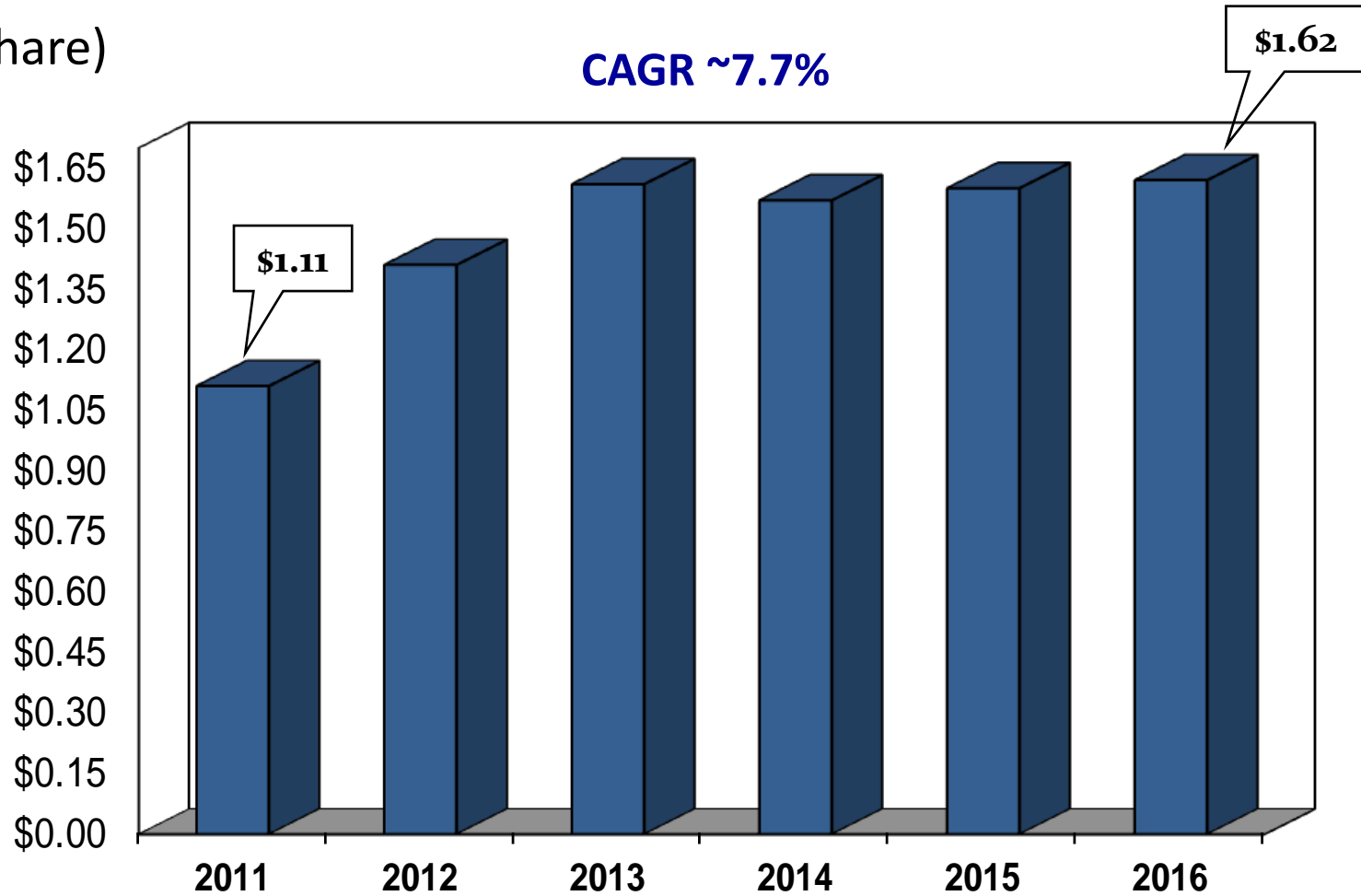
☐ **Favorable regulatory environment in California**

- Forward-looking (future) test years limit regulatory lag
- Recovery of / Return on Rate Base through the regulatory process
- Decouple revenue from sales to provide consistent returns through Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA)

- ❑ **Well-positioned for privatization and consolidation opportunities**
 - Highly fragmented industry; few publicly-traded players; high barriers to entry
- ❑ **Aggressive posture toward recovery of operating costs and CapEx**
- ❑ **Stable utility customer base**
- ❑ **Seasoned and committed management team and Board;** strong financial operators with >100 years collective utility experience
- ❑ **Strong balance sheet:** “A+/A2” ratings - one of the highest in the industry
- ❑ **Valuable water rights portfolio:** AWR owns ~74,000 acre-feet of adjudicated groundwater rights and a significant number of unadjudicated groundwater rights. In addition, AWR owns ~11,300 acre-feet of surface water rights

Diluted EPS from Operations

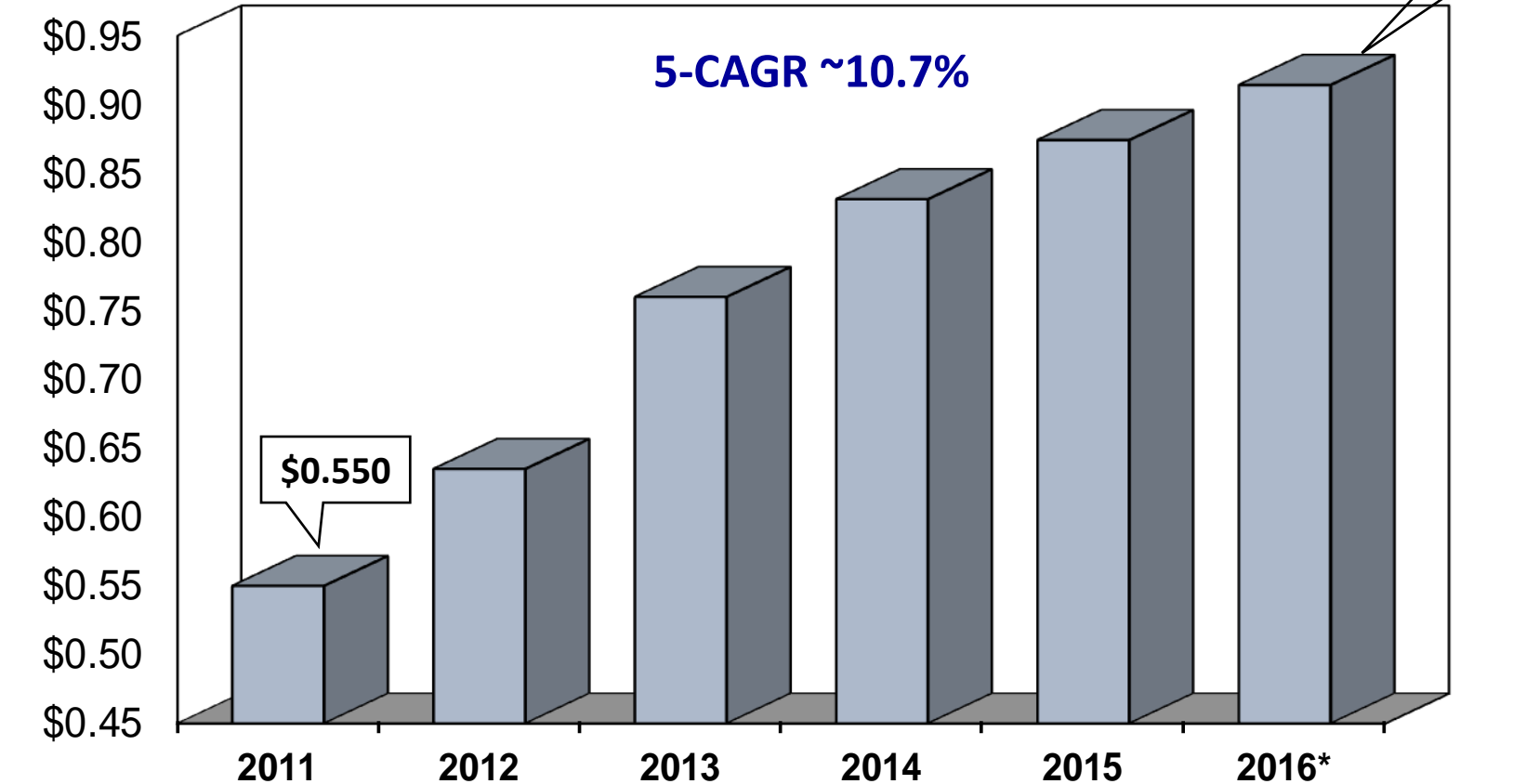
(per share)



Excludes the discontinued operations of CCWC

62 Consecutive Years of Dividend Increases

(Per share)



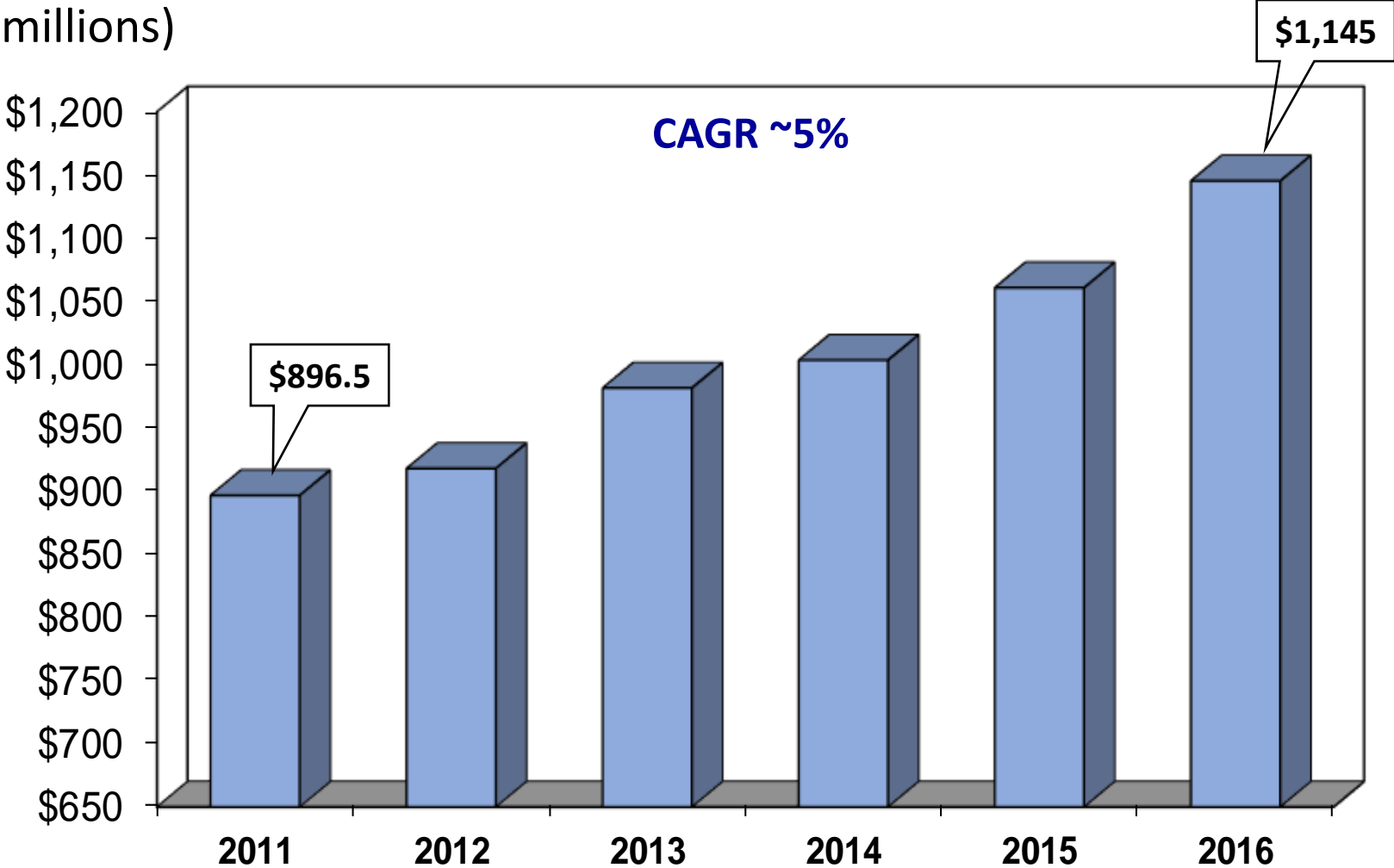
* Includes an 8% dividend increase in Q4

Targeting a dividend growth rate of at least 5% over the long term

Net Utility Plant from Regulated Utilities



(in millions)



Net Utility Plant for all the periods presented excludes the fixed assets of the discontinued operations of CCWC



- ❑ **November 2016:** An 8% increase in the fourth quarter cash dividend, resulting in an increase in the annual dividend from \$0.896 per share to \$0.968 per share. This is in addition to a 5.2% increase in both 2015 and 2014, a 14.1% increase in 2013 and a 26.8% increase in 2012.
- ❑ **2014-2015:** The Company repurchased 2.5 million shares, or 6% of the outstanding common shares as part of its stock repurchase program, returning \$90 million to shareholders.
- ❑ **2015:** AWR was named as one of the top 4 publicly-traded companies, headquartered in California, for having females in leadership positions by the *UC Davis Study of California Women Business Leaders: A Census of Women Directors and Highest-Paid Executives*.



- ❑ **December 2016:** The CPUC issued a decision in GSWC's water general rate case, which set new rates for the years 2016 – 2018 (and was retroactive to January 1, 2016):
 - Allows GSWC to earn its 8.34% authorized return on rate base
 - Approved \$250 million in capital infrastructure spending
 - GSWC will file its next GRC in July 2017, setting new rates for the years 2019 – 2021

- ❑ **February 2016:** The CPUC approved GSWC's request to once again extend the date of the filing of its cost of capital application to March 2017. The following rates and capital structure are still in effect and will continue through December 31, 2017 for GSWC's water segment:
 - ROE of 9.43%
 - 55% equity / 45% debt
 - Return on rate base of 8.34%

- ❑ **February 2016:** The CPUC approved GSWC's request to defer the next GRC filing for its electric division by one year, which is expected to be filed by March 31, 2017. The next electric GRC filing will set new rates for 2018 – 2021. The CPUC approved the last electric GRC in November 2014, which set rates for the years 2013–2016 and provided for modest increases in customer rates. The authorized ROE of 9.95% will now remain in effect through December 31, 2017.
- ❑ **October 2015:** Completed the acquisition of Rural Water Company, which serves approximately 960 customers in San Luis Obispo County, which is near GSWC's other water systems in Coastal California. The CPUC had approved the purchase agreement in June 2015.

- ❑ **Currently**, less than 5% of California remains in a “Severe Drought”, a significant improvement from January 2016 when 86% was ranked “Severe Drought”.
- ❑ **GSWC continues to encourage conservation** and has mechanisms in place to decouple revenues from sales through tiered rates. Overall usage is down ~28% since implementing our tiered rates in 2008. Surcharges are in place to recover under-collections due to lower consumption.
- ❑ **The State Water Resources Control Board (SWRCB)** has taken various actions to ensure reduced water usage throughout the state, and to track reductions by larger urban water suppliers. Currently, GSWC’s water usage reductions have met the SWRCB requirements.
- ❑ **February 2017:** The CPUC approved GSWC’s filing for recovery of drought-related items of ~\$1.3 million, incurred mostly in 2015. GSWC will reflect the approval during the first quarter of 2017 mostly as a reduction to operation-related expenses.



- ❑ **During 2016:** The U.S. government awarded ASUS ~\$24 million in new construction projects at the military bases we currently serve. The majority of the new construction projects are expected to be completed during 2017:
 - ASUS is also working to grow this business segment by developing significant opportunities for other new construction work on the bases we currently serve
- ❑ **Pricing** on nearly all of our 50-year contracts with the U.S. government is now current.
- ❑ **July 2016:** The U.S. government awarded a 50-year contract to operate and maintain the water and wastewater systems at Eglin Air Force Base in Florida. The initial value of the contract is estimated at ~\$510 million over the 50-year period, subject to annual economic price adjustments. It is also subject to adjustment based on the results of a joint inventory of assets currently underway. ASUS will assume operations at Eglin by mid-2017.
- ❑ **Actively pursue** new military base privatizations for both the U.S. Army and the U.S. Air Force.

- ❑ Deliver outstanding customer service
- ❑ Focus on operational efficiency to minimize costs to customers
- ❑ Make prudent capital additions that enhance shareholder and customer value on a timely basis within approved rates:
 - In 2016, GSWC invested **~\$121 million** in company-funded capital, the highest in the company's history. GSWC expects to spend **~\$110-\$120 million** in 2017.
 - Net utility plant at the regulated utilities has grown at a 5-year CAGR of **~5%** through 2016.
- ❑ Earn the authorized return on equity and return on rate base

- Receive timely recovery of costs
- Maintain good working relationship with state regulatory commission
- Be proactive in managing resources and influencing policy
- Expand customer base through organic growth and acquisitions
- Employ management systems to conserve water and energy resources (see our *Corporate Social Responsibility Report* available at www.aswater.com)
- Maintain a strong water supply portfolio

- ❑ Increase net income at the military bases currently served through:
 - Efficient operations
 - Price redeterminations
 - Requests for equitable adjustments
 - Economic Price Adjustments

- ❑ Increase the size and scope of our contracted services operations:
 - Further develop service opportunities on current military bases
 - Actively pursue numerous military bases still to be privatized; active bids are currently in process

- ❑ Earn higher returns on investment than the allowed returns for regulated utilities

□ Water supply mix for GSWC on average:

- **~60%** from GSWC's own groundwater sources
 - ✓ GSWC has a significant portfolio of adjudicated water rights
- **~35%** purchased principally from the Metropolitan Water District (MWD) and its member agencies, imported from:
 - ✓ California State Water Project
 - ✓ Colorado River
- **~5%** from surface water under contracts with the United States Bureau of Reclamation and the Sacramento Municipal Utility District

We will continue to:

- Focus on growing the regulated utility businesses through necessary infrastructure replacement and customer acquisition
- Improve efficiency of current operations at all business segments
- Pursue rate case and other regulatory filings timely
- Grow the contracted services business through additional military base privatizations and by developing significant opportunities for new construction work on the bases we currently serve
- Meet the needs of our customers and investors
- Be a leader in the industry by sticking to what we do best

***Providing value for investors and quality
service to the customer***



American States Water Company

<http://www.aswater.com>