CALIFORNIA WATER SERVICE GROUP
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Vice President & Chief Financial Officer

September 10, 2010

Ms. Mary Schapiro, Chairman
Security and Exchange Commission
100 F Street NE
Washington, DC 20549

Subject: California Water Service Group Comments on IFRS Work Plan

Dear Ms. Schapiro:

California Water Service Group (Cal Water) is the third largest investor-owned water utility in the United States, providing high-quality water and wastewater utility services to approximately two million people in more than 100 communities in California, Hawaii, Washington, and New Mexico.

Cal Water is providing comments on the proposed plan to incorporate IFRS into the U. S. financial reporting process. While the IASB has made an effort to reach out to North American utilities to understand the implications of IFRS on the utility industry, their efforts have fallen significantly short of reflecting the economic reality of the U.S. utility industry. These shortfalls can have a profound effect on North American utilities, the Public Utility Commissions that regulate us, and our ability to raise capital in the public markets. Accordingly, we believe that these issues require significant consideration by the Security and Exchange Commission (SEC) and North American utilities in order to provide a smooth transition in the adoption of any new standards.

Question 1:
To what extent and in what ways is the set of accounting standards (such as U.S. GAAP or IFRS) used by a company in its financial reporting significant to an investor's decision to invest in that company?

Users of financial statements of rate-regulated companies rely heavily on regulatory accounting principles established under FAS 71, which are integral to the rate-regulated transactions covered in U.S. utility financial statements. The users of these financial statements include:

- U.S. Securities and Exchange Commission
- Federal Energy Regulatory Commission
- credit rating agencies
- state public utility commissions
- financial analysts
- retail investors
- institutional investors

- banks and lenders
- city and county governments
- suppliers and vendors

Currently under IFRS, there is not a FAS 71 equivalent or a proposed method for accounting for regulatory assets or regulatory liabilities. The absence of clear regulatory guidance in IFRS, which does not represent the economic reality of our regulatory process, will significantly increase the complexity and decrease the clarity of U.S. utility financial statements. Further, it will increase the use of non-IFRS measures in order to meet the needs of users. Cal Water believes that adoption of the IFRS would place U.S. regulated utilities in an untenable position because of the potential for confusion in reading, comprehending, and applying their financial statements and the conclusions reached.

Question 2:
To what extent are investors aware of the potential impact of incorporation of IFRS into the financial reporting system for U.S. issuers that they invest in or follow, compared with current U.S. GAAP?

The majority of rate regulation in the United States is based on cost-of-service methodology, which utilizes regulatory assets and regulatory liabilities that are considered intangible. These assets and liabilities are not subject to discounting or mark-to-market adjustments due to changes in interest rates.

Under cost-of-service ratemaking, customer prices are based on cost forecasts for the next period or upon an historical cost structure, as approved by an entity's regulators. Certain costs are deferred or accrued through a regulatory account to match the period they are put into rates. That regulatory methodology allows for future cash inflow/outflow amounts to be reliably measured, because it is highly probable that the approved amounts will be received from customers in a regulated environment. Therefore, a future economic benefit or obligation is created by the regulatory action.

We believe that a structured framework encompassing regulatory assets and liabilities gives users relevant information on the entity's ability to generate cash, resulting in a better basis to make economic decisions. According to the IASB Framework, "economic decisions that are taken by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents." A regulatory framework also would provide a consistent methodology for regulated entities to present their financial positions and increase comparability among rate-regulated companies.

The regulatory environment produces numerous scenarios where a regulatory action results in a future economic benefit or obligation that is probable and measurable. Regulatory accounts may be used to effectively communicate that regulated entity's economic benefit or obligation to financial statement users.

Any standard that does not accommodate the regulatory realities of cost of service rate making will be difficult to support. Further, such a standard runs the risk of greatly confusing regulatory agencies and the users of financial statements. In addition, failure to properly reflect how we recover costs and generate returns can limit our ability to raise capital in the public debt and equity markets.

Any new standard that effects the reporting of a rate-regulated company will require a significant amount of investor education and lead time. Currently, it is our opinion that U.S. investors are not aware of the significant ramifications associated with the adoption of IFRS on utilities. Further, with the absence of a FAS 71 equivalent, users of regulated financial information will be left with no means to evaluate or comprehend changes to any reporting standard.

We believe the above noted comments are significant and would be happy to answer any questions the SEC may have.

Respectfully yours,

Marty Kropelnicki